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**The Internationalisation Process  
&  
Upgrading Prospects of Indian Garment  
Manufacturers**

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## **Abstract**

In the context of globalisation and liberalising economies, an increasing number of local firms based in developing countries and emerging markets are encouraged to internationalise their business activities and thus participate in foreign trade. Their sustained success is founded on two key factors; their ability to access potential foreign markets, and their ability to upgrade their capabilities and thus improve their positioning in global markets. This thesis investigates the internationalisation process and upgrading prospects of Indian Garment Manufacturers (IGMs). It begins by examining how IGMs gain access to foreign markets and discusses the factors that help or hinder their progress. The thesis subsequently explores the ways in which IGMs upgrade their activities to higher value-added activities and investigates the contributory factors that drive and shape their upgrading prospects.

Existing studies employ the concept of 'Diaspora networks' or ethnic ties to explain how local firms from emerging markets are able to internationalise their business activities. These studies highlight the integral role played by Diaspora networks in enabling this internationalisation. Diaspora networks help connect local firms with foreign, world class buyers (or 'lead firms') using the Diaspora's own pre-established ties and links with such lead firms. Similarly, Global Value Chain (GVC) proponents assume the upgrading prospects of these local firms can be enhanced as a result of linking up with 'lead firms' because of the benefits that can be derived from knowledge and technology transfer imparted through working with world class buyers.

The extant literature however is vague on the internationalisation processes of IGMs. Furthermore, it does not adequately address the extent to which IGMs utilise Indian Diaspora networks to access foreign markets and to internationalise their business activities. It is also unclear what mechanisms are employed to impart knowledge from lead buyers to suppliers and to what extent the knowledge and technology transferred plays a key role in progressing IGMs upgrading activities; especially in the higher value added functions of design. This thesis contributes by addressing and shedding further light on these unresolved issues. It examines the issues using a combined approach, where theories and concepts from international business (IB) and GVC are employed in analysing the subject matter and thus allows for a more nuanced and comprehensive understanding of the issues under investigation.

To explore the above themes a case study based approach was employed. Interviews were conducted with key decision makers/owners of 23 case companies. Further interviews with key industry, academic and government heads were conducted as a means of triangulation. Interviews were, in turn, supplemented with documentary evidence and published material from company websites, industry and academic journals, and newspaper articles, so as to arrive at a more comprehensive understanding of the issues in question.

Findings from this study suggest that IGMs rarely use Diaspora networks to access foreign markets. Instead, the majority of IGMs have achieved internationalisation as a result of well-developed networks of formal intermediaries based in India who have facilitated connections with prospective buyers. Furthermore, their manner of internationalisation reveals IGMs tend to access foreign markets initially at a very young age and at a rapid pace. Thus process-based theories of internationalisation seem inappropriate in explaining this rapid pace of internationalisation; insights from the literature on Born Globals and International New Ventures (INVs) seem, at first, to offer better explanations. However, employing concepts such as the ‘mature’ born global and the ‘failed’ born global leads one to re-examine and reconsider these initial findings. Re-examined findings indicate that in fact maturing IGMs are realigning their internationalisation trajectories to be better positioned to take advantage of favourable domestic market conditions. These findings are better explained using a more inclusive definition of internationalisation; particularly, concepts of de-internationalisation and extra-regional expansion from the field of IB.

Additional findings, related to the issue of upgrading, indicate that contextual factors, usually related to the domestic economy and the firm’s internal circumstances, play a significant role in affecting the upgrading prospects of IGMs. These findings are contrary to GVC-based explanations of what drives and shapes IGMs’ upgrading activities, which place excessive emphasis on the role of the ‘lead firm’. In particular, GVC-based assumptions regarding the knowledge and technology transfer benefits available to local manufacturers by linking with larger world class buyers or lead firms seem of limited applicability to IGMs; here, firm-specific factors seem more important in determining firm choices concerning upgrading trajectories.

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## **Declaration**

I declare this thesis to be my own work.

It does not contain material previously published or written by another person, except where adequately acknowledged.

It does not contain material that has been accepted for the award of any other degree or diploma in any university, except where due acknowledgements have been made.

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**Miss Sheetal Anil Patel**

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**Sunday 1<sup>st</sup> May, 2011**





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## Acronyms

ADO	Apparel Design Outsourcing
AEPC	Apparel Export Promotion Council
AGOA	African Growth Opportunity Act
ASEAN	Association of South East Asian Nations
ATDC	Apparel Training & Design Centre
BG	Born Global
BPO	Business Process Outsourcing
CAD	Computer Aided Design
CAFTA	Caribbean Free Trade Agreement
CMT	Cut, Make & Trim
DC	Developing Country
D&G	Dolce & Gabbana
DR-CAFTA	Dominican Republic & Caribbean Free Trade Agreement
EOU	Export Orientated Unit
ERP	Enterprise Resource Planning
EU	European Union
FDI	Foreign Direct Investment
FIT	Fashion Institute of Technology
GCC	Global Commodity Chain
GDP	Gross Domestic Product
GoI	Government of India
GPN	Global Production Network
GVC	Global Value Chain
IB	International Business
IGM	Indian Garment Manufacturer
IIT	Indian Institute of Technology
INV	International New Venture
JPG	Jean Paul Gautier
JV	Joint Venture
MFA	Multi Fibre Arrangement

MIT	Ministry of Textiles
M&S	Marks & Spencer
mMNE	Micro Multinational Enterprise
NAFTA	North American Free Trade Act
NIFT	National Institute of Fashion Technology
NRI	Non-Resident Indian
OEA	Original Equipment Assembly
OEM	Original Equipment Manufacture
OBM	Original Brand Manufacture
ODM	Original Design Manufacture
QPD	Quality, Price, Delivery
R&D	Research & Development
RTA	Regional Trade Agreement
SAARC	South Asian Association of Regional Cooperation
SME	Small and Medium Size Enterprise
SSI	Small Scale Industries
TUFS	Technology Upgradation Fund Scheme
UAE	United Arab Emirates
UK	United Kingdom
US	United States
WTO	World Trade Organisation

# Chapter 1 Introduction

## 1.1 Introduction

The international business and upgrading activities of domestic companies are important for the sustained growth and economic development prospects of most countries. This is especially so in today's increasingly liberalised and globally interdependent world, where not many companies can seek refuge within their domestic markets, which are themselves exposed to foreign competition. Thus, the question to ask is no longer whether one should engage in international trade but instead how one can participate in trade and do so successfully and in a sustainable manner.

Moreover, with the integration of international economies there has been a fragmentation of vertically-integrated, large multinational firms, especially when concerning their manufacturing activities. Whereas earlier large clothing retailers would carry out production operations in-house, the past few decades have seen a shift to de-verticalisation of the large retailers' operations, with the outsourcing of non-core production functions to third party manufacturers. The outsourcing trend is a result of firms' cutting costs and refocusing their energies on activities related to their core competencies. (The latter typically consist of the higher value-added functions of the production chain such as research and product development, design, marketing, and retailing). This development, in what is essentially the re-organisation of production, impacts on the abilities of local firms to access foreign markets and participate in trade, as well as affecting other aspects of their internationalisation activities; seemingly opening up opportunities for firms who previously may have had less chances of integrating their production activities on an international level.

A plethora of studies exist concerning the subject matter at hand, not only validating the importance of the subject under study but also highlighting its cross-disciplinary nature, as academics from varying backgrounds, including economic geography, industrial economics, development studies and international business (IB), undertake research in this area. This chapter introduces the problems explored in this dissertation, situating them briefly with respect to the relevant literature as well as discussing the significance and importance of the study. We present



the research objectives and questions, followed by a brief discussion of the garment industry, both internationally and in the context of India. The chapter concludes by laying out the structure of this thesis.

## **1.2 Existing research**

International business researchers have put forward various theories that explicate the internationalisation of firms. These range from pre-export models of internationalisation such as extra-regional expansion and counter trade, to process based models like the Uppsala model of internationalisation, to literature on the "born global" phenomenon and International New Ventures (INVs), amongst various others covered in the ensuing chapter, Chapter 2. However, few studies have used these theories to explore how the re-structuring and re-organisation of large retailers' production networks has impacted the process of internationalisation of firms from low-tech industries like the garment manufacturing industry.

The latter topic has been the concern of Global Value Chain (GVC) researchers, who have done much work on understanding how the international and upgrading activities of producers located in developing countries have been affected by the production networks of large retailers. However, while GVC theory concentrates on explicating how firms are positioned in the international production networks of large firms or 'lead firms', it does not consider the actual process that firms may go through to access the production network of the retailer, nor does it investigate the speed with which firms are able to internationalise their activities or consider alternative routes to the production networks of large retailers that may be available and a preferred choice for local producers when internationalising.

By combining these two sets of theories (IB theories and GVC theory), this study should help to contribute with deeper insights into the internationalisation processes and access prospects of firms, particularly developing country firms in low-tech industries.

Some research on the internationalisation activities of companies in developing countries highlights the role of Diaspora or ethnic ties in enabling manufacturers to access foreign markets and linking them to the production networks of foreign buyers. This issue has been of particular

interest in the case of the Indian software industry and the Chinese apparel manufacturing industry. Thus, to what extent Indian Diaspora or ethnic ties play an enabling role in the internationalisation process and international market access decisions of Indian Garment Manufactures (IGMs) is also explored in this thesis.

GVC theorists (Tewari, 2005a, 2006b,c; Kaplinsky and Morris, 2001) find that it is not enough that firms like the IGMs investigated in this study simply seek to integrate their business activities in the international arena through accessing the production networks of large foreign retailers. Instead, they suggest that it is imperative for them to formulate a sustainable strategy based on the upgrading of their activities and building of core competencies. They advocate avoiding a pure low-price strategy that is neither sustainable nor capable of ensuring the long-term growth and survival of the firm. This is particularly pertinent to the garment industry, in which newly industrialising economies participate precisely because the start-up costs in this industry are so low. The firm employing a strategy based on building core competencies through upgrading creates, as it were, a barrier to entry, making it difficult for other start-up firms to compete with it. This study therefore also deals with the upgrading practices and prospects of IGMs, along with their ability to access foreign markets.

### **1.3 Significance & importance of study**

This research studies the internationalisation and upgrading prospects of manufacturers based in a developing/emerging market context. That is, it examines how such firms engage in international trade and do so in a sustainable manner through upgrading their activities. Development economists and practitioners tend to exclusively approach the subject matter using GVC-based concepts and theory.. Therefore, findings from GVC-based literature and studies underpin much of policy formation, particularly influencing development of government policies and local firm business strategy, which in turn crucially affects and shapes the growth prospects and strategic decision makings of these firms, their industries and the economies in which these industries are embedded.

However, the question arises as to the appropriateness of using a pure GVC based approach. The GVC framework has limitations which are discussed in Chapter 2. Furthermore, findings from this study emphasise these limitations suggesting GVC fails to take account of various factors

including firm specific issues such as the entrepreneur's risk perceptions as well as the specificities and dynamics of the local context within which firms operate, amongst various other limitations, which also play an important role in shaping firms' internationalisation and upgrading decisions. Thus, by implication, policies based upon a pure GVC analysis may be inadequate in addressing the issues raised in this study concerning the prospects of producer firms from developing countries attempting to engage in international trade and upgrade their operations. Furthermore, on a wider, economic level, a negative impact on individual firms would consequently resonate negatively on the economic growth prospects and advancement of the country as a whole, defying the purpose of alleviating developing countries from their low economic growth status or enabling them to participate in global trade more in a sustainable manner.

Instead, by using a combined approach, as advocated by this study, policy makers can develop more aligned policies and recommendations to support the needs and practices of internationalising firms from developing countries. Moreover, these policies will affect how firms make strategic decisions concerning upgrading choices.

#### **1.4 Research objectives & questions**

The general objective of this research is to explore and gain a clearer understanding of how local Indian garment manufacturers (IGMs) in today's globalized and liberalised world internationalise their businesses and compete in a sustainable manner through upgrading their activities.

The general objective can be split into the three specific objectives, which in turn help develop the three main research questions that will guide this study:

##### ***(a) The importance of Diaspora networks & ethnic ties***

This first objective seeks to understand the importance of diaspora and ethnic ties in enabling IGMs to internationalise. It investigates whether IGMs to a large extent rely on diaspora networks to access foreign markets, as has been the case in the garment manufacturing industry in China and software industry in India, and why or why not they rely on such networks. Whether there exist alternative routes to accessing foreign markets, such as through the production networks of large foreign buyers, as is the focus of GVC literature. The importance

of Diaspora networks and ethnic ties and possible alternative processes of internationalisation is further examined and discussed in the Chapter 2, section 2.4.6.

There exists very little research on the use of Diaspora networks in the Indian garment manufacturing sector, only reference being that made by Tewari's (1999) work. However, her work's focus is not the use of Diaspora networks per se and only touches on the subject matter with no substantive evidence indicating its wide spread use or disuse and possible reasons for this. To this extent this study seeks to fill this gap, by making Diaspora networks and their potential use by internationalising IGMs one of the main issues addressed. Various other internationalisation process are also considered (as discussed in Chapter 2), as their may be more than one route taken by IGMs to internationalise.

Thus the overall aim is to clarify and understand whether the process of internationalisation undertaken by IGMs is through the use of Diaspora networks and to examine the reasons for these choices; or whether IGMs seek to internationalise through alternative routes and if so to examine these alternative routes. Thus the main research question asked to address these objectives is as follows:

***Research Question 1***

*How important are Diaspora or ethnic ties in the internationalisation of IGMs?*

***(b) IGMs internationalisation practices, choice of specific markets and of buyers***

The second specific objective is to determine the factors that drive manufacturers to internationalise their business activities, and in particular their choice of specific markets and the specific buyers they cater to. GVC theory and literature focuses on the influencing role large foreign buyers play in driving and shaping local producer firms' choices (this theme is discussed further in Chapter 2, section 2.6.2). To this extent this thesis seeks to examine the role such buyer's play, as an influencing and shaping factor IGMs market choices and internationalisation decisions. It also will be important to establish the range of buyers IGMs cater to and what influences IGMs choice of specific buyers. GVC literature solely focuses on the internationalisation of local firms through accessing large foreign buyers production networks and to this extent it becomes important to determine whether IGMs cater to this type of buyer

and whether they exist alternative buyers other than the lead buyer that IGMs may cater to and what factors determine between these choices of buyers.

Alternative influencing factors, other than the foreign buyer, in determining their internationalisation practices and their choice of foreign market, are also explored in this study. Literature from international business and entrepreneurship suggest various firm specific resources and national sources of capital play important roles in determining firm choices and strategy; these themes and their salience to this study is further discussed further in Chapter 2.

Thus overall the aim is to determine what factors influence IGMs internationalisation patterns and their choice of market, and whether these have strong links to the needs and wants of the large foreign buyers that IGMs may cater for;. Thus to address these objectives research question asked is as follows:

***Research Question 2***

*What factors influence the IGM's internationalisation patterns, their choice of specific markets, and the specific buyers they cater for?*

***(c) IGMs upgrading practices and prospects***

The third objective is to establish the range of upgrading activities undertaken by IGMs using the upgrading typology provided by GVC theorists Kaplinsky and Morris (2001), which is further discussed in Chapter 2, section 2.6. Upgrading activities and prospects of IGMs is important if they are to carry on their operations in a more sustainable manner, with a view to surviving into the long term. There has been a plethora of research carried out by GVC based studies (Kaplinsky and Readman, 2005; Kaplinsky et al., 2003; Schmitz, 2004; Tewari, 2005c) on the upgrading practices of local producers. Mostly, GVC-based research postulates that the upgrading activities of producers is influenced, determined and shaped by large foreign buyers. It is unclear from research on IGMs, as discussed in Chapter 2, section 2.6.3, whether they benefit from such knowledge transfers.

Indeed GVC literature tends to be vague regarding the exact mechanisms through which knowledge is transferred and how upgrading follows on from this transfer. This thesis aims to fill this gap. It examines the role foreign buyers' play in driving the upgrading practices of

IGMs, through imparting knowledge. To aid in the capture of the exact mechanisms through which knowledge is transferred, currently lacking in GVC based studies and theory, Ernst and Kim's (2001) knowledge transfer matrix is incorporated in the study, a detailed discussion of which is provided in Chapter 2, Figure 13.

Moreover, it will be interesting to investigate to what extent, if at all, IGMs have upgraded to the higher value-added upgrading activities of design and inter-chain upgrading, as much of GVC literature believe these areas of the value chain as highly guarded by large buyers who consider it their core activity. In addition, the role of alternative factors that may influence, drive and shape IGMs upgrading trajectories is also explored. Thus in light of these objectives the following research question is proposed:

***Research Question 3***

*What factors drive the upgrading prospects of IGMs?*

Thus the above three research questions are proposed to guide and fulfil the main and specific research objectives of this study.

## **1.5 Background to garment manufacturing industry**

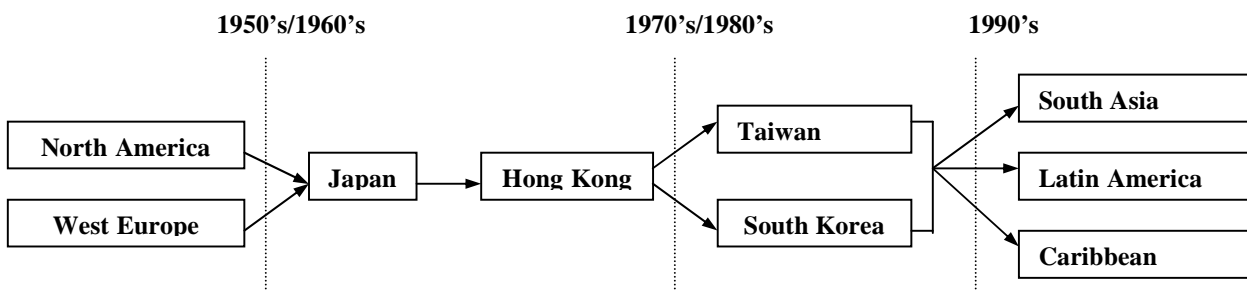
To understand the upgrading and internationalisation choices of IGMs, it is necessary to understand the nature of the garment manufacturing industry, both worldwide and within India. This helps to achieve a sense of the competitiveness of the Indian garment-manufacturing sector by assessing its strengths and weaknesses and comparing it with other countries where this industry plays a key role in the economy. With this picture of where the Indian manufacturers are positioned in the world garment industry, we can gauge the level of competence acquired and what the industry's producers can and should aspire to if they are to remain competitive. Furthermore, such an analysis is useful to better evaluate, at a later stage in this thesis, the significance of the findings of the research at hand. Understanding where Indian manufacturers stand in terms of production competitiveness in relation to other countries as well as in relation to each other allows us to identify those strategies that have enhanced manufacturers' competitiveness and allowed them to compete in the international arena.

### 1.5.1 Garment manufacturing: The international context

To a greater or lesser extent almost all countries have had some tie with the garment industry making it one of the most global manufacturing sectors in the world (Cammett, 2006; Dicken, 2003). For centuries, garment and textile manufacturing has been a crucial element of industrialisation for every country undergoing that process. Although since the 1980's garment manufacturing has been dominated by developing economies, many developed countries before them engaged in manufacture and trade in garments (UNDP Report, 2006).

A brief historical perspective is depicted in Figure 1, which indicates how the geography of garment manufacturing has shifted in the last half century.

Figure 1 Historical perspective of garment industry



Source: Author's Own

The above Figure 1 illustrates the relocation of garment manufacturing from geographic regions like North America and Europe to East Asian countries and finally to South Asia and Latin America and the Caribbean. As early as the 1950s and into the 1970s and 1980s the primary impetus for the reallocation of apparel manufacturing bases to foreign destinations was the need for retailers to lower their costs of production, which in turn enabled them to offer their customers lower-priced garments. This was especially important during the times when depressed consumer demand and economic recession meant companies had to combat falling sales in order to survive, let alone remain competitive (Cammett, 2006). As their own economies developed, the cost of labour rose, undermining competitiveness, especially in comparison with developing countries, thus forcing retailers to consider outsourcing those parts of the manufacturing process that are labour intensive.

Garment manufacturing is still considered a highly labour intensive industry, and factors of production like labour still to a great extent tend to determine the location choices in the apparel industry. This industry characteristic also explains the footloose nature of retailers, some of whom are constantly in search of the next emerging low-cost location. However, the changing dynamics of the regulatory environment and developments in the fashion industry have also influenced the geography of garment manufacturing.

During the Multi-Fibre Arrangement (MFA) era that lasted 30 years until 2005, a quota system was in place whereby various producer countries, in particular China and India, were allocated quota restrictions on the volume of garments they could export to the markets of the US and Europe. To circumvent such restrictions producers re-allocated some of their production functions to various regions of the world that did not fall under the MFA restriction. The quota system under the MFA created much inefficiency, leading to wastage in time due to round tripping of shipments, as well as increasing costs unnecessarily (Windie, 2005). Countries like Nepal, Maldives, Bangladesh and Mauritius, which previously did not support a garment manufacturing industry, became proxy low-cost production centres for the main, first-tier manufacturers based in the quota-restricted countries (Adhikari and Weeratunge, 2006). The proxy manufacturers were contracted by the first-tier manufacturers to conduct the simplest, mostly labour-intensive, operations within the garment manufacturing chain, like the Cut, Manufacture and Trim (CMT) stage, or the tagging, labelling and packaging stage. These finished garment were then shipped directly to the end customer, most likely located in the US and Europe. This three-way relationship is commonly referred to as triangular manufacturing.

However, with the expiry of the MFA in 2005 (with the exception of China, whose MFA expiry date ended in 2008), previously quota-restricted countries find themselves with no quota-based restrictions. This has affected the industry, as retailers feel they should consolidate their quota-induced, far-flung manufacturing networks and concentrate on key producer countries, thus once again affecting the geography of production.

Regional Trade Agreements (RTAs) between countries, such as the North American Free Trade Agreement (NAFTA) and African Growth Opportunity Act (AGOA), have enabled certain manufacturing countries to benefit over other countries due to advantages of being able to trade freely or being subjected to lower tariff barriers when their goods are exported to the consumer



markets of the US. Retailers who are price sensitive are therefore likely to contract out their production needs to countries that are part of such regional arrangements.

Another key factor that has influenced and shaped the geography of production networks, as well as confirming that garment production does not have to be based on seeking out low-cost producers but can also be motivated by alternative factors, such as faster delivery times, is the changing dynamics within the retail fashion industry. Fashion cycles have become increasingly short; whereas earlier there were four seasons, these have increased to 12 seasons and for some companies, like the well-documented case of fashion retailer Zara, of the Spanish Inditex Group, the fashion cycle changes every 15 days (Tokatli, 2008). Thus, companies are increasingly working on smaller batch production and using the strategy of scarcity and exclusivity to retail their products. This in turn impacts their production networks, which have short turnover times for their clothes, and thus require faster delivery times. Therefore, many of the fashion sensitive retailers produce their garments in factories that are located in close proximity to the retailers' consumption markets. These proximate locations do not necessarily offer the lowest production cost options, but because of their strategically well-placed geographic location, they are sought after by fashion retailers.

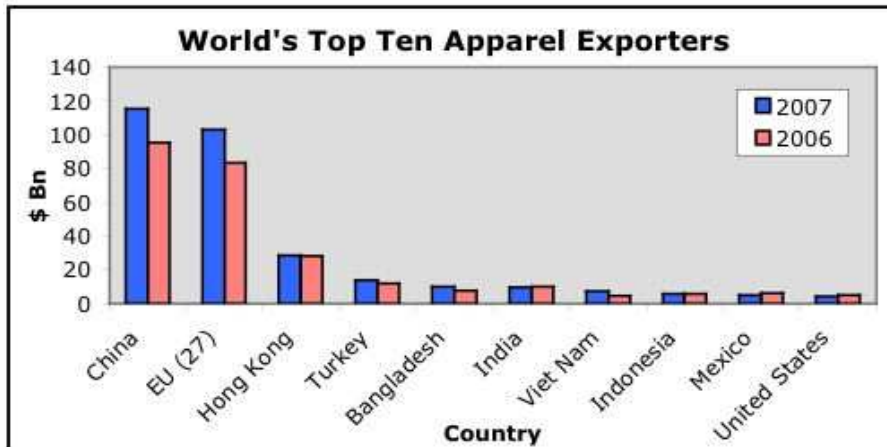
The above discussion has presented the various factors that characterise the garment industry the world over, characteristics that shape the organizational structure of the industry, affecting both the strategies of clothing retailers and the internationalisation activities of manufacturers everywhere. The following section briefly characterises the Indian garment industry.

### **1.5.2 Garment manufacturing: The Indian context**

The apparel and textiles industry is a crucial sector for the Indian economy in terms of its growth and vitality. It contributes in several significant ways to the economy. Firstly, it is the net highest foreign exchange earner, accounting for the more than 16.63% of the net export earnings of the country and 4% of GDP (MIT 2007, Back Ground Paper; Verma, 2002). The apparel sector is also the second highest employer of labour after the agriculture sector, employing 35 million people directly, of which a large proportion is comprised of people from socially excluded classes, tribes and women (Adhikari et al. 2006).

India's international competitiveness in comparison to other apparel producing and exporting countries makes the country one of the world's key sourcing destinations for apparel. World Trade Organization (WTO) statistics indicate it to be within the top ten apparel-exporting countries in the world, as is depicted in Figure 2.

Figure 2 Top ten apparel exporters in 2006-2007



Source: Compiled from WTO Statistics (2007/6 Figures)

What is interesting to note is that India has slipped in the rankings from 2006 to 2007, possibly reflecting a fall in its competitiveness. Whereas in 2006 it exported 10.2 billion dollars' worth of apparel, surpassing Bangladesh (which produced only 7.8 billion dollars' worth of exports), in 2007 Bangladesh took over India's fifth place in the world by showing an impressive 21% growth in the value of its apparel exports, compared to India's significantly lower growth of 3.9%. The figures are presented in Table 1.

Furthermore, China has kept its top ranking for two consecutive years. In addition, the difference between the top ranking export value and India's export value is tremendous. All these factors suggest that India's competitiveness in the garment industry could be at risk. For this reason, it is important to study the possible causes for its fall in export rankings as well as the way in which its garment manufacturers compete (e.g., whether or not they upgrade their prospects to achieve more sustainable and value enhancing forms of competition). This study attempts to contribute to such an understanding.

Despite this fall in the rankings, studies on the Indian garment sector indicate that it can boast of many comparative advantages over other garment manufacturing countries. For example, India houses a fully vertically integrated supply chain<sup>1</sup> for the production of cotton garments, which is seen as being one of a kind. A vertically integrated supply chain allows manufacturers to be greatly independent of foreign suppliers for sourcing of raw materials or inputs (Tewari, 2006a; USITC: 2004). In fact, BIU figures for 2002 indicate that for the garment sector “the value of India’s textile imports was equivalent to less than 15% of its clothing exports ... this compared with shares of around 32% for China, 50% for the Philippines and almost 80% for Vietnam” (BIU: 2005).

Table 1 Comparison of top ten exporters for 2006 & 2007

Country	Export Value (Billions)			
	2007		2006	
	Dollars	Euros	Dollars	Euros
China	115.2	80.9	95.4	75.94
EU (27)	103.4	58.8	83.4	66.39
Hong Kong	28.8	20.23	28.4	22.61
Turkey	14.0	9.84	11.9	9.47
Bangladesh	10.1	7.10	7.8	6.21
India	9.7	6.81	10.2	8.12
Vietnam	7.2	5.06	4.8	3.82
Indonesia	5.9	4.14	5.7	4.54
Mexico	5.1	3.58	6.3	5.01
USA	4.3	3.02	4.9	3.90

Source: Compiled from WTO Statistics (2006/2007)

Such statistics demonstrate the heavy reliance of India’s main competitors within the garment industry on imported fabrics, fabric being the most important input required for the production

<sup>1</sup> In a vertically integrated supply chain, all functions of the apparel manufacturing chain are present, from the growing and harvesting of cotton to the spinning of yarn, manufacture of fabric, processing and finishing of fabric (dyeing and washing), design of apparel, manufacture of trims and accessories (buttons, lace, sequins), cut manufacture and trim of the apparel and finally the labelling and packaging of the finished garment.

of a garment, and further emphasises the advantages that strong backward linkages within the garment sector hold for India. In addition, India in 2008 surpassed the United States in becoming the second largest producer of cotton, another important raw material for cotton apparel production. In addition to these strengths, India also has an abundance of low-cost labour<sup>2</sup> in what is essentially a highly labour intensive industry.

Various factors have prevented or hindered apparel manufacturers from harnessing these assets to their fullest advantage. One particular factor that has persistently riddled the industry with inefficiencies is the fragmented and small-scale nature of the industry. The small-scale nature is a result of past government policies, in particular the Small-Scale Industry (SSI) Act. The SSI Act reserved various industries within India, including the garment industry until very recently (2002), for small-scale production (Verma, 2002; Bhavani, 2006). This has had a lasting impact on shaping the industry. Not only has it deterred expansion of factory size, but it has also led to slow uptake of the upgrading technology of garment manufacturing units (EIU, 2005). As a result, many Indian Garment Manufacturers (IGMs) are not equipped to produce garment on a mass scale or benefit from economies of scale, and instead focus on smaller batch production of garments. Although with the recent removal of the garment sector from the SSI, there have been attempts by larger manufacturers to scale up their production capacities, these still do not compare to those of countries like China and Vietnam.

In view of significance of the garment industry's contribution to the Indian economy, we can appreciate the importance of the research presented here. The focus on the internationalisation and upgrading of Indian Garment Manufacturers allows us to explore factors that enhance the competitiveness of the industry (as well as those that adversely affect growth and competitiveness). Whereas the above discussion has presented a macro-perspective on gauging the competitiveness of the Indian garment industry, this thesis adopts a micro-perspective by focusing on the firm, looking at Indian Garment Manufacturers and how their international activities affect the competitiveness of the industry. We now present the structure of the thesis.

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<sup>2</sup> Nevertheless, labour costs have been rising, and Indian labour is costlier than that of various other competitor countries like Bangladesh and Sri Lanka.

## **1.6 Thesis structure**

This thesis is composed of 7 chapters, and is arranged as follows:

### **Chapter 1 *Introduction***

The current chapter is the introduction chapter and introduces the subject matter under study. It starts by presenting the various general and specific research objectives as well as the key research questions to be addressed. In addition, it provides an industry background of the garment manufacturing sector; positioning the industry within the Indian context as well as an international context.

### **Chapter 2 *Theoretical underpinnings***

This chapter presents the various theories that may be relevant to the study of firm internationalisation and upgrading. The theories derive from various fields of literature including the field of development studies, international business, strategy and entrepreneurship.

### **Chapter 3 *Conceptual framework***

This chapter presents the conceptual framework used to guide the preliminary analysis of findings. The framework provides a summary of the researchers understanding of the relationships between investigated variables, in particular firm upgrading and internationalisation. The chapter brings together the different theoretical approaches within a coherent model, by establishing possible links between concepts and thus in effect helps to address the main research question.

### **Chapter 4 *Methodology***

This chapter presents the methodological approach employed to carry out the research for this study. It establishes the philosophical stand point from which this study derives and justifies the choice of approach adopted. The chapter will also describe the data collection and data analysis techniques undertaken.

### **Chapter 5 *Findings***

This chapter presents the findings of the thesis. It is organised in three sections, where each sections presents the findings for each of the three research questions posed at the outset of this

study. The chapter provides brief explanations of findings, as a more in depth discussion of findings and implications is carried out in the discussion chapter.

### **Chapter 6 Discussion**

This chapter discusses the findings presented in the previous chapter and positions these within current debate concerning firm internationalisation and upgrading. The purpose of the chapter is to establish a dialogue between the conceptual framework chapter and emergent findings from this study. This chapter provides a discussion of how well the preliminary relationships established at the outset and modelled in the conceptual framework in Chapter 3 helps to explicate the findings from this research presented in chapter 5. Effectively, the chapter tests the validity and applicability of the conceptual framework in Chapter 3 (the framework itself being a construct of interpretations and understanding of relevant conceptualisations of firm internationalisation and upgrading) and draws out the implications for the study at hand.

### **Chapter 7 Conclusion**

This chapter summarises the key findings of the research and considers the implications they pose for a wider audience, such as garment manufacturers from other countries attempting to integrate their production activities with international markets. The chapter also discusses the implications of using various theories and suggests areas of modification and adjustment when doing future research. The chapter goes on to highlight the possible shortcomings of the research and analysis that may affect the interpretation of the results presented in the thesis, and finally concludes with suggestion for areas of further research.



# **Chapter 2 Theoretical Underpinnings**

## **2.1 Introduction**

This chapter establishes the various relevant theoretical and conceptual analytical frameworks that are employed to address the three main research questions set out in Chapter 1. The Chapter has been divided into two parts. The first part deals with theories of the internationalisation process of the firm and is mainly used in addressing research question 1. The second part of this chapter presents the Global Value Chain Theory, particularly focusing on the role of the lead buyer and upgrading conceptualisations of the firm. The GVC theory is mainly used to address the third key research questions regarding the upgrading prospects of Indian Garment Manufacturers (IGMs); however, it has also been used in research question 2, to some extent, particularly when assessing the role of large, foreign, 'lead firms', in enabling or hindering IGMs access to foreign markets.

## **2.2 Theories addressing the first research question**

A key concern for the study of international business is the manner in which firms internationalise their businesses activities by participating in foreign trade. The focus of previous studies has primarily been the larger firm (Coviello and Munro, 1997), the Multinational Enterprise (MNE), and its capacity to internationalise based on various advantages including size, financial clout, maturity and experience amongst possible others. There have been numerous conceptualizations of the internationalisation processes of manufacturing firms some of which are Buckley and Casson (1998); Dunning (1995, 1993, 1981, 1977); Buckley (1989, 1988); Beamish and Banks (1987); Rugman, (1986, 1981); Casson (1982, 1979); Hymer, (1976); Kindleberger, 1969 in Hooley, Cox, Shipley, Fahy, Beracs and Kolos, (1996); and MacDougall (1960), amongst others. The application of such studies and the theories used to analyse them is however limited for use in this study, as the focus of this study is the local Indian garment manufacturer, who characteristically is the small to medium sized player. The small size and highly fragmented nature of the Indian textiles and garment industry, is a combined result of the historical legacy of the garment industry having been reserved under the small scale industries (SSI) act which resulted in limiting the size and scale of factories.



Although this sector was de-reserved from the SSI in 2001 contextual regulatory factors in particular strict labour laws in terms of hiring and firing continue to encourage the existence of smaller unit factories, which employ less than a 100 workers, as anything above restricts firms from being able to hire and fire as per requirement (Ministry of Textiles Report, 2007; Tewari, 2008).

In acknowledging the inadequacies of previous theories, gradually, the focus of research has shifted to the internationalisation process of the smaller firm. The study of the internationalisation of the smaller firm is more applicable to this research, and at the outset will be used to help explicate and answer the first of the three key research questions posed regarding the internationalisation processes and activities of the Indian garment manufacturer. Compared to the larger firm, the smaller firm is particularly distinguishable and of interest due to it often being characterised as possessing constraints such as limited capabilities and limited managerial resources (Buckley 1989; Coviello, et al. 1997). Such limited resources can be considered one of the major liabilities of being small, impeding growth and threatening firm survival. Besides being faced with such challenges, it may be crucial for small firms' survival strategy that they internationalise their business activities, as often there is limited demand provided by what is considered a small and/or underdeveloped domestic market (Luostarinen, 2002). This point is salient in the case of the domestic Indian retail market as it is only very recently that a booming organised retail sector for ready-to-wear garments has emerged; previously, India's domestic market for ready made garments was under-developed, with the made-to-wear suit pieces sold in local mom and pop type stores as the popular choice. Thus, an underdeveloped retail market was a major aspect that prevailed during the set-up of the garment manufacturing industry in India that began during the late 1980's and early 1990's; firms did not face intense domestic competition, which could have driven them to internationalise as a means of seeking alternative markets in which to compete.

Furthermore, Freeman et al. (2006: 33) suggest that for many small and medium size businesses the task of internationalising can be particularly difficult. They identify three challenges that such a firm would typically have to overcome. The first is the lack of economies of scale, the second a lack of resources and finance. Thirdly, they are likely to be more risk averse due to the two aforementioned challenges, as they would suffer a greater fall if something were to go wrong than would a larger, richer Multinational Corporation (MNC). These very constraints

force such firms to search for alternative options and means of carrying out operations that will allow them to compete and gain profits. They have to seek alternative routes to overcome these difficulties, and hence it is very prevalent that such companies will have owners of an entrepreneurial mind set. Thus, academics have noted that it is common for such firms to employ alternative, more innovative, governance structures in order to surmount the difficulties encountered.

The subject of internationalisation of the firm can be examined through various analytical lenses, which can be broadly grouped under three literatures: Foreign Direct Investment (FDI) theories, Organizational Behaviour and Entrepreneurship. Academics from each of these fields have contributed to building and refining theories and models that have helped to explicate the internationalisation of the firm.

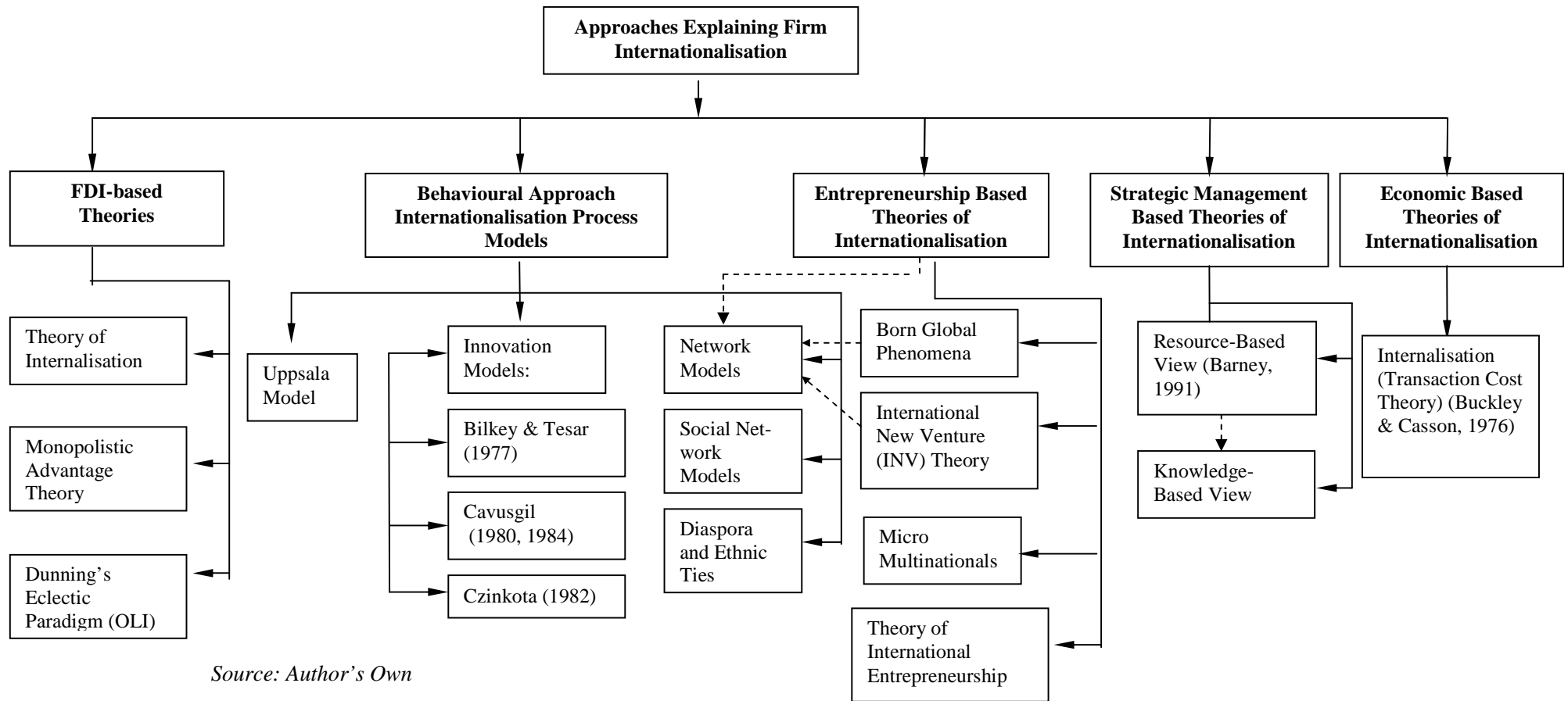
Figure 3 illustrates some of the key approaches developed to understand the internationalisation process of the firm; it adopts a comprehensive classification schema of firm-level explanations or approaches to the process of internationalisation to date. However, theories explicating the internationalisation of the firm through FDI, as depicted in the diagram, are to some extent inappropriate for this study, as such theories have tended to focus on the larger, multinational enterprise (MNE), whereas the focus of this study is the small to medium sized firm, as are the majority of Indian garment manufacturers. However, more importantly, FDI-based theories study the topic of international business in terms of international production through FDI whilst this thesis studies internationalisation through trade (i.e. through exports).

Various theoretical approaches from the study of organisational behaviour, entrepreneurship, strategic management and economics, as seen in Figure 3 also attempt to explain the internationalisation processes of the firm. These theories may not necessarily all distinguish between or focus specifically on the internationalisation of the smaller firm, as is the subject of this study, but they focus on international business in terms of exports rather than solely on FDI. To this extent these theories become important to study as a starting point, and will be discussed individually in the following sections.

Cyert and Marsh (1963) posit that a firm's behaviour is a consequence of the attitudes and goals of the individual managers of the firm. The contribution of Cyert and Marsh's (1963)

Behavioural of the Firm Theory in international business literature is fundamental. Various theories (Cavusgil, 1984) on the internationalising firm have based their models on individual manager's perceptions of risk and consequently appetite for risk, their growth aspirations and their expectations (Madsen, 2005) all of which impact their internationalisation decisions and thus impact the firms' internationalisation process. Thus the use of Behavioural theory has been an underlying guiding framework for process-based models of internationalisation, in particular the Uppsala Model (Johansson and Weidersheim, 1975; Johansson and Vahlne, 1977, 1990), and I-models. Thus the behavioural-based theories of internationalisation are an appropriate starting point from which to understand the internationalisation process of the SMEs.

Figure 3 Key approaches to internationalisation of the firm



Source: Author's Own

Following the process-based models of internationalisation are the Entrepreneurship-based theories of Internationalisation that is the Network-based, Born Global, Micro-multinational (mMNE) and International Entrepreneurship approaches to internationalisation. These later theories arose out of criticisms of the process models of internationalisation. Mixed empirical support (Oviatt and McDougal, 1994, 1997, 1999b) for stages- or processed- based explanations of internationalisation emerged because of evidence from case firms, particularly in high-tech industries, following non-linear and accelerated patterns of internationalisation. However, it is important to note that the network models of internationalisation fall under both 'Behavioural Approaches' to internationalisation as well as the 'Entrepreneurship Based Theories of Internationalisation' as is indicated in

**Figure 3** Figure 3 by the broken arrow that links 'Network models of internationalisation' to 'Entrepreneurship Based Theories of Internationalisation'. This is because later works of Uppsala theorists (Johanson and Vahlne, 2003) recognise the importance of networks suggesting internationalisation can be viewed as the gradual expansion of a firm's existing networks.

Overall, combining the latter four approaches to internationalisation, that is, Behavioural approach, Entrepreneurial approach, Strategic Management and Economics approach, help to explain firm internationalisation and overcome the inability of former FDI-, MNE- focused paradigms, to handle SME-specific intricacies. It is imperative that these four approaches to firm internationalisation are revisited, recounting how they have evolved and how they can help guide the analysis of data undertaken in Chapter 6 of this thesis.

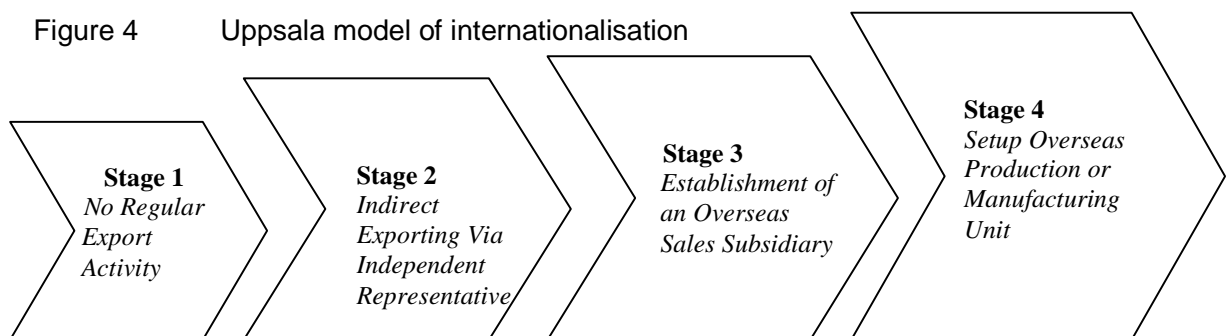
This chapter starts by explicating the Uppsala model of internationalisation, reviewing its analytical strengths and limitations and thus putting later developments in perspective. The improvements made to the Uppsala model by researchers are presented including various other process-based models of internationalisation as well as the alternative theories that break away from the process-based explanations and instead adopt an entrepreneurial approach (e.g. network models of internationalisation and the concept of born global firms, or international new ventures -or INVs and micro-multinationals). Lastly the internationalisation practices of firms as understood from a strategic management point of view and resource-based view is considered.

Presenting these various conceptualisations of internationalisation helps to analyse the findings more comprehensively. The question then arises as to how far these models of internationalisation go to explain the internationalisation process of Indian garment manufacturers.

## 2.3 Theoretical conceptualisations of the process of firm internationalisation

### 2.3.1 Behavioural Approach to Internationalisation: Uppsala model of internationalisation

The Uppsala model of internationalisation is the mainstream theory on the internationalisation process of firms and one of the most widely referenced models for explaining how international activities of firms develop (Anderson, 1993). It was developed in the Swedish University of Uppsala by Johanson and Wiedersheim-Paul in 1975, and further modified and formalised by Johanson and Vahlne in 1977 who based their model on findings from a study of four large manufacturing firms. The Uppsala model, commonly also referred to as the U-model, assumes two generalisations about internationalising firms. The first is that internationalising firms essentially go through a four-stage, sequential process, whereby each progressive stage is assumed to reflect a higher degree of internationalisation attained by the firm and thus requires higher commitment from the firm, both in terms of management time and resources dedicated to international activities. Johanson and Vahlne (1977) referred to these steps as the ‘establishment chain’. Figure 4 depicts their 4-staged model of internationalisation.



Source: Adapted from Johanson and Vahlne (1977)

The process is thought to be a sequential set of steps that progress gradually. A firm will often initiate its internationalisation process by intermittent, direct exporting to a foreign country. This is considered the first step in the internationalisation model, depicted as 'Stage 1' in Figure 4. The second step, 'Stage 2' of the model for the internationalising firm, would be to progress onto indirect exporting. That is, the firm would export using independent representatives such as distributors and agents. The third stage of internationalisation is the establishment of sales subsidiaries abroad, like a marketing or sales office. The fourth and final stage is the establishment of a foreign production and manufacturing sight - otherwise known as undertaking foreign direct investment (FDI).

The second premise or generality upon which the U-model bases its understanding of the internationalising firm employs the concept of 'psychic distance' and the geographical proximity of new markets. Psychic distance is defined as "the sum of factors preventing the flow of information from and to a market, these include differences in language, education, business practices, culture, and industrial development" (Johanson and Vahlne, 1977: 51). Thus, the less a firm understands a particular market and how it functions, the higher is the perceived level of psychic distance. Proponents of the Uppsala model believe that internationalising firms will initially approach those markets that are 'psychically close' to them. Therefore markets that possess similarities in factors such as taste, culture, language, political system, educational system, trade practices, regulatory and business environments, and industrial development are more likely to be considered first. Markets exhibiting such similarities are perceived by the internationalising firm as low risk due to the assumption that their existent knowledge will suffice and can be applied to understanding and working in the new market. The new market seems familiar and is thus less daunting and therefore risk and uncertainty perceptions of the market are lower as well as required investment commitment from the internationalising firm is also comparatively lower. Psychically close markets tend also to be geographically proximate to the internationalising firm's own home market (Hollensen, 2001).

A gradual build up of foreign market knowledge and foreign market working experiences is considered to be the main driving force that propels managers of an internationalising firm to keep expanding in foreign markets that are considered psychically distant as well as to increase their investment commitments over time. It is this idea of continuous managerial learning

assumed by the model that drives the internationalisation process and therefore forms the establishment chain.

The U-model not only helps explicates the internationalisation process as being driven by managerial learning but also helps to understand how firms select markets and the possible routes/modes taken to access foreign markets.

### **2.3.2 Behavioural Approach to Internationalisation: Innovation models of internationalisation**

The presentation of the U-model (1975) has led to further research, refinement and development of the model, giving rise to variations of the model in which the variable factor, most commonly, is the number of stages within the establishment chain. For example, Reid (1981) describes the process in five steps while Bilkey et al. (1977) and Czinkota (1982) identify six stages to the internationalisation process. These models are commonly referred to as the innovation models (I-model) of internationalisation. Table 2 illustrates four examples of some of the successor stage-models of internationalisation that have been developed by various researchers on the common basis of the U-model.

These alternative behavioural models of internationalisation, the I-models, are closely linked to the U-model. Their similarities to the U-model stem from the fact that they all propose a gradual, incremental “staged” approach to export development, while also, to varying extents, supporting the notion of psychic distance. In addition, consistent with the U-model, the I-models also derive the gradual pattern of export development from two factors: 1) the lack of experiential knowledge possessed by the firm and 2) the uncertainty or risk associated with the decision to internationalise.

However, unlike the U-model which incorporates foreign investment expansion, i.e. FDI type activities, the I-models focus solely on the export development (pre-export stage) or expansion process of firms, approaching the analysis from either an innovation-adoption cycle (Roger, 1962) or from an export development learning curve method.



The influence of Rogers's (1962) Innovation-Adoption Cycle model on the enhancement of Innovation-model (I-model) theories of internationalisation is an important consideration. Roger's (1962) Innovation-Adoption model stems from the field of marketing/consumer behaviour and helps explicate the process by which firms adopt new innovations.

Consequently, international business researchers have found the model useful in also explaining the internationalisation process of the firm. Essentially, Roger's (1962) theory, from the context of consumer behaviour, argues that there are five sequential stages – that is, awareness, interest, evaluation, trial, adoption – that an individual or an 'adopting unit' goes through in order to come to a decision as to whether or not a new innovation- for example new ideas or technology- should be adopted (Spowart, et al., 2009).

IB theorists have applied these behavioural stages to the study of the internationalising firm and use it to explain how firms decide to adopt the innovative activity of exporting. In the context of international business a non-exporting firm may consider getting involved in exporting activities for the first time and therefore the act of exporting, in such a scenario, is interpreted as an innovative idea or foray. Reid (1981) amongst others (Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982) have employed Roger's (1962) 5-stage Innovation-Adoption Process model to help explain the export expansion process of firms and are known as Innovation-models (I-models). Although the I-models differ as to the number of stages used to illustrate the export expansion process of a firm they never-the-less are all grounded in Rogers's original Innovation-adoption model.

### **2.3.3 Criticisms of the process theories of internationalisation**

There have been various criticisms aimed at the way in which process theories of internationalisation are conceptualised, ranging from calls for adopting more holistic and inclusive definitions of internationalisation to positing the inadequacies of traditional, process-based, theories in explicating more accelerated forms of internationalisation. These criticisms are discussed in the following sections.

Table 2 Innovation models of internationalisation/pre-export models

<b>Innovation Models of Internationalisation</b>				
<b>STAGES</b>	<b>Bilkey &amp; Tesar (1977)</b>	<b>Cavusgil (1980)</b>	<b>Reid (1981)</b>	<b>Czinkota (1981)</b>
<b>STAGE 1</b>	<i>Management is not interested in exports</i>	<i>Domestic Marketing. The firm sells only to the domestic market</i>	<i>Export awareness: problem of opportunity recognition, arousal of need</i>	<i>Firm completely uninterested in exports</i>
<b>STAGE 2</b>	<i>Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exports</i>	<i>Pre-export stage: the firm searches for information and evaluates the feasibility of undertaking exporting</i>	<i>Export Intention: motivation, attitude, beliefs and expectancy about exports</i>	<i>Firm partially interested in exports</i>
<b>STAGE 3</b>	<i>Management actively explores the feasibility of active exporting</i>	<i>Experimental exporting: the firm starts exporting on a limited basis to some psychologically close countries</i>	<i>Export trial: personal experience from limited exporting</i>	<i>The exploring firm</i>
<b>STAGE 4</b>	<i>The firm exports on an experimental basis to some psychologically close countries</i>	<i>Active involvement: exporting to more new countries-direct exporting-increases in foreign sales value</i>	<i>Export evaluation: results from engaging in exports</i>	<i>The experimental exporter</i>
<b>STAGE 5</b>	<i>The firm is a experienced exporter</i>	<i>Committed involvement: management constantly makes choices in allocating limited resources between domestic and foreign markets</i>	<i>Export acceptance: adoption of exporting /rejection of exporting</i>	<i>The experienced small exporter</i>
<b>STAGE 6</b>	<i>Management explores the possibility of exporting to other more psychologically distant countries</i>			<i>The experienced large exporter</i>

Source: Adapted from Andersen (1993)

## **2.4 Towards a more holistic conceptualisation of Internationalisation**

Presenting a comprehensive theory of internationalisation is a difficult task as the concept 'internationalisation' itself is unclear and vaguely defined (Welch & Luostarinen, 1988). Most studies have tended to understand internationalisation and define it in terms of an outward movement of foreign operations by firms or organisations. However, there have been calls by academics (Fletcher, 2001; Calof & Beamish, 1995; Welch & Luostarinen, 1988) to adopt a more holistic framework of internationalisation processes and activities than has been allowed for by established conceptual frameworks of internationalisation. So far the various models of internationalisation predominantly employed in the literature, particularly the U- and I- models, focus on researching internationalisation as a unidirectional process that is export-led, that is, interpreting and examining internationalisation as a trajectory of domestic to foreign based activities.

Stages-based models of internationalisation, as presented in earlier sections of this chapter, have served as popular conceptualisations of the internationalisation process undertaken by firms. This is especially true during the early 1970's through to the 1980's where frameworks like the Uppsala model of internationalisation serve as a case in point. The U-model as do the I-models describe internationalising firms as those that move outwards from the home market in a gradual, unidirectional manner; increasing their commitment and involvement in terms of the foreign operations they partake in as they progress through to the later stages of internationalisation. Thus the model adopts a typical definition of internationalisation emphasising the process as being a gradual, outward movement from home market to foreign market which is further sustained as the firm increases its foreign market involvement through greater operational commitments and investments. However, the U-model has been criticised as presenting a rather narrow view of the internationalisation process.

Thus in answer to calls for adopting holistic conceptualisations of internationalisation various authors have conceded to the importance of addressing and taking a broader definition of internationalisation. A broader definition has meant acknowledging that the inward flows of trade are more closely linked to outward flows in the internationalisation process and therefore considering inward flows becomes important if one is to better understand the outward processes (Welch and Luostarinen, 1988). Similarly the unidirectional nature of established stages based

theories of internationalisation limits the understanding of the internationalisation process, and it does not adequately consider the reverse case of ‘de-internationalisation’. Research into de-internationalisation could help understand better why firms may decide to withdraw from a foreign market and thus help to understand internationalisation processes better and help with the possibilities of re-internationalisation. Furthermore, it is important to consider the pre-export activities of firms, particularly the process of extra-regional expansion, which can positively influence the internationalisation processes of a firm. These various, broader, conceptualisations are discussed in turn:

#### **2.4.1 Inward-outward Linkages: Counter-trade**

The conceptualisation of the inward-outward connections in internationalisation suggests that a firm’s inward internationalisation processes, activities, and experiences – for example imports or dealing with foreign suppliers - can ultimately lead to the development of outward connections and thus stimulate outwards processes of internationalisation, for example exporting activities. This is also known as counter-trade. Thus by dealing with inward processes, such as importing, firms learn and experience about the foreign supplier and their markets and this can in turn lead them to at a later date expand into the international markets that they have already had experience of trading with in terms of importing from them.

The inward linkages can be equally important not only in the development of outward linkages but over the long term sustenance of outward linkages once the firm has already established an international array of market connections and customers. Thus making connections and strong ties with domestic suppliers of raw materials or other intermediary products required for a manufacture to continuously supply their foreign clients with high quality, timely and also cheaper goods is necessary.

Welch and Luostarinen (1992) summarise in their article the impact and importance the inward process can have on outward linkages and developments for internationalising firms. They conclude that “the inward movement, in whatever form, signals the beginning of a relationship between a foreign seller and a local buyer, which creates the possibility of later using that link for a foreign network and knowledge about a foreign market” (Welch and Luostarinen, 1992: 54).

#### **2.4.2 De-internationalisation**

The alternative consideration to inward moves is that of a firm that is already engaged in international operations and decided to withdraw or divest from foreign market operations, also known as de-internationalisation. De-internationalisation is the process whereby a firm purposely chooses to reduce its exposure to international markets. Various academics to date continue to acknowledge the scantily researched topic of de-internationalisation (Welch & Welch, 2009; Turner & Gardinar, 2007; Rieljan, 2004; Benito, 1997; Cantwell 1991; Boddewyn, 1983). They suggest instead greater emphasis has been placed on conceptualising and theorising on the outward processes of internationalisation by the firm or the multinational enterprise, as discussed above. Various reasons have been posited for the lack of research on de-internationalisation and thus being considered an under-researched phenomenon. Seringhaus (1987 as cited in Pauwels & Matthyssens, 1999) and Turner & Gardinar (1997) and Hamilton & Chow (1993) amongst others suggest de-internationalisation can be perceived as a sign of failure as firms attach a stigma to failure and prefer not to discuss the topic, treating it with discretion thus making the phenomenon harder to study. Furthermore, data on reported incidents of failure or international retraction by firms is harder to come across or locate (Benito, 1997) thus making the population sample of most studies on de-internationalisation small (e.g. Gardinar & Turner's work is based on one case study) and therefore lacking in their ability to come up with generalisable conclusions. This in turn is likely to dissuade researchers from pursuing the topic for study.

Despite the relatively unexplored subject of de-internationalisation its importance in helping to furthering the knowledge of the internationalisation process as well as gain a more rounded perspective on the processes of internationalisation is acknowledged by Paulwels & Matthyssens (1999) and Welch & Wiedersheim-Paul, (1980).

Although attempts to research this area are limited there has been some useful and important work examining de-internationalisation activities. Calof & Beamish's (1995) work on 'strategic adaptation' considers the concept of de-internationalisation and highlights various ways in which a firm may de-internationalise. They suggest the most direct act of de-internationalisation by a firm would be to withdraw entirely from particular foreign market(s) that the firm works in. However, there are other indirect or subtle ways which can also be considered evidence of a firm's de-internationalisation activities. For example, a firm may choose to discontinue selling a

particular product in a specific foreign market or decrease its foreign direct investment activities; it may also consider reducing the range of activities it carries out within a foreign market. These various reasons provided by Calof & Beamish underlie the fact that firms international strategies can change and as a result a firm needs to realign its international activities to cope with these changes if it is to sustain the growth trajectory it has mapped out for itself. Thus, in keeping with this reasoning Mellahi (2003: 151, as cited in Reiljan, 2004) defines de-internationalisation as a “voluntary process of decreasing involvement in international operations in response to organizational decline at home or abroad, or as a means of enhancing corporate profitability under non-crisis conditions.” Similarly, Turner & Gardiner (2007: 489) suggest if “internationalisation works on the assumption that firms- as growth seeking entities- move into international markets as a means of sustaining or increasing rates of expansion [then] de-internationalisation involves a re-organisation of a firm’s international assets to sustain this long term growth strategy.”

Benito and Welch’s (1997) work focuses more on offering explanations as to why a firm may decide to de-internationalise. They posit three broad over-arching factors - economic, strategic and international managerial factors that - in isolation or in various combinations - serve as rational for a firm’s de-internationalisation activities. Economic factors, taken from a traditional economic perspective suggest de-internationalisation is a rational response by firms to fall in profits as a result of altered market or competitive conditions. These conditions may include situations such as a fall in demand for the firm’s product or service in the foreign market; it could also be viewed in terms of a rise in cost of foreign operations that is unsustainable for the firm where both circumstances could result in a firm deciding to retract from a foreign market.

An alternative economic perspective used to understand firm de-internationalisation is the Transaction Cost (T.C.) based approach. Transactions Cost economists focus on underlying strategic reasons for why firms may adopt a particular mode of international operation over another or change from one mode to another and in turn give explanations for firm de-internationalisation activities. Using the concept of asset specificity T.C. economists (Williamson, 1985; Riordan & Williamson, 1985; Teece, 1986) suggest due to the nature of a specific asset, for example, a specialised machine or technology that is only useful for a specific purpose or job and therefore cannot be easily or quickly sold off – firms may encounter “a significant fall in value of [the] specific assets” (Benito and Welch, 1997: 10) and therefore can

affect the firm's initial chosen method of operating in the foreign country. Thus in an attempt to instil a more appropriate choice of operation that is better suited to the new circumstances faced by the firm the firm may decide to change or alter its initial mode of operation. For example, a firm may find that due to newer and better technology on the market the value of their specific asset – technology - can no longer be perceived as unique and therefore does not justify their initial choice of operation- e.g. a wholly owned subsidiary in the foreign country. A wholly-owned subsidiary can be considered a 'high-control operation' where the associated set-up and operating costs are relatively higher than a less controlled, arms length type of business operation. Therefore the firm may decide to divest out of such a highly controlled mode of operation and instead outsource its needs through arms-length type agreements. The decision to divest from the foreign market due to a case of fall in value of the specific asset therefore can explain some forms of de-internationalisation.

Benito and Welch (1997) highlight the importance of Strategic Management as yet another field of literature that contributes to the study of de-internationalisation. Strategic management lays emphasis on the role of strategic factors in understanding the reasons behind divestments. Strategic factors encompass elements such as the strategic fit of the foreign market to the firms overall strategy (which may evolve over the course of the firms life), or the foreign market's maturity which may also change over the course of time. A change in a market's maturity can affect the firm's strategy in terms of having to re-assess the specific foreign markets it operates in and assess whether they are still viable markets for the firms product or whether the market is highly saturated and thus contributing to high uncertainty in terms of future profits for the firm. These various strategic factors have been posited in the literature as reasons for firms to divest.

Lastly, Benito and Welch (1997) consider de-internationalisation from an internationalisation-management perspective. Organisational, management related factors such as management learning, commitment and experience are all highlighted as influencing factors in a firm's decision to internationalise as well as de-internationalise. Academics employing this approach have paid far-less attention to researching the causes of de-internationalisation instead spending considerable effort explaining internationalisation processes. However, the importance of understanding de-internationalisation is in itself important in understanding internationalisation especially if one is to perceive de-internationalisation to be an extension of the internationalisation process. As suggested by Benito & Welch (1997: 12/13):

One might expect that the learning-by-doing stressed in this literature [internationalisation process approach] as one of the keys to understanding the ability of firms to continue moving out over time would include learning from mistakes, failures and the like which result in some reversals from time to time within an overall pattern of international growth.

**Benito & Welch (1997: 12/13)**

However, Rieljan (2004) points out that often researchers consider de-internationalisation as an extension of internationalisation or a temporary reversed process of internationalisation as illustrated in Benito & Welch's quote above. However, this is not always the case, that is, a company that de-internationalises does not always plan to re-internationalise in the future and sometimes the reverse process is a permanent decision taken by the firm who does not have intentions to internationalise as they may consider pressures from competitors and commitments to internationalise too great and a costly endeavour.

Never-the-less, by considering cases of de-internationalising firms not only provides a more holistic framework for examining the internationalisation processes of Indian garment manufacturers but also helps portray the important linkages that a study of de-internationalisation has to the understanding of the internationalisation processes of a firm. Specifically, Turner and Gardinar (2007) suggest that a study of de-internationalisation can help 'dominant incumbents' approach the internationalisation process. Furthermore, Fletcher (2001) interprets de-internationalisation as an extension of the internationalisation process, in that, one must study what processes, drivers, and problems of internationalisation may lead to de-internationalisation. Furthermore, from the view point of an exporting firm, greater knowledge regarding influencing factors that promote the sustainability and success of their international activities may contribute to a better assessment of potential foreign market endeavours (Benito, 1997).

**2.4.3 Extra –Regional Expansion**

The consideration of pre-export activities has important implications for the internationalisation of the firm. Thus it becomes important to consider non-exporting firms when researching the internationalisation of the firm (Wiedersheim-Paul et al., 1978). In particular, a firm's past, historical context and its local environment are important influencing factors when considering



internationalisation processes (Wiedersheim-Paul et al., 1978; Garnier, 1982). Wiedersheim-Paul et al. (1978) focus on the relevance of the history of the firm and extra-regional expansion as pre-export stimuli that influence a firm's export behaviour. They suggest:

A firm may have to pass through a type of internationalisation process within the domestic market before it is prepared for its export start...[so] As a firm expands its operations into more distant regions, it is moving into less familiar territory; i.e. more "foreign" markets.

**Wiedersheim-Paul et al. (1978: 51)**

Thus by focusing on expansion into distant markets within a firm's own national boundaries Wiedersheim-Paul et al. (1978) emphasis the distinction between local and distant markets as opposed to the conventional focus on local and foreign markets in internationalisation literature. But how does this expansion lead to or contribute to the firm's internationalisation process in terms of local to foreign markets? Initially servicing a distant market within the national or home boundaries of the firm can be difficult in terms of communication and other costs associated with relative 'foreignness' but the firm learns to overcome these in time and soon there is a reduction in the perception of foreignness by the firm, which allows the firm to look for newer distant markets within the home boundaries to 'internationalise' to. This process prepares the firm in terms of experience as well as may also land the firm "a fortuitous overseas inquiry" (Wiedersheim-Paul et al., 1978: 51). Research on Australian firms demonstrates the extra-regional expansion process into the capital cities of the various states that make up the Australian federal system (Wiedersheim-Paul et al., 1978).

In a similar vein more recent literature (Rugman & Verbeke, 2007, 2004a, b) focuses on extra-regional expansion and thus makes a distinction between intra-regional expansion and inter-regional expansion. Here the definition of region is understood to mean a cluster of countries that can be geographically proximate and belong to the same trade association. Thus intra-regional expansion constitutes expanding operations within a given region rather than expanding firm operations to far out regions or countries, for example expanding within the ASEAN region rather than the ASEAN and NAFTA region. Rugman and Verbeke (2007: 201) suggest that the decision for firms to conduct international activity at an intra-regional level rather than an inter-regional level is justified because "the liability of intra-regional expansion appears to be much

lower than the liability of inter-regional expansion.” That is, additional transaction costs are incurred not only when doing business abroad but furthermore when expanding business into varying regions of the world. Ghemawat (2005, 2001) suggests the distance between different regions, involves considerable differences in cultural intricacies, administrative procedures, geographic conditions and economic environments which an internationalising firm must overcome if it is to consider doing business on a more global. Instead they (Rugman and Verbeke, 2007) argue that many firms, including the world’s largest multinationals employ a regional approach to their international operations which is confirmed by the various regional headquarters and operating divisions that they have established.

The above studies on extra-regional expansion have focused on the multinational firm. Thus it can be argued that if MNCs feel the need to incorporate a regional element to their internationalisation operations and process due to difficulties with servicing a wide range of differing regions then it is more than likely that small and medium sized firms, which are the main participants of this study, will further portray intra-regional rather than inter-regional export behaviour. Primarily due to the fact that many small firms will suffer from the ‘liability of smallness’ that is they are likely to have resource and financial constraints that limit their activities.

The above ideas of semi-globalisation rather than the full onset of globalisation belies the notion of a fully integrated global and brings into question “the scope and pervasiveness of the globalisation phenomenon” (Rugman and Verbeke, 2007: 201) whilst also serving as a criticism of the concept of a born global company – a concept introduced and discussed in ensuing sections of this chapter. Furthermore, this idea of semi-globalisation or intra-regional expansion supports and fits within the resource-based literature which suggests the resources that help firms achieves a sustained form of competitive advantages are location bound (for further explanation see section 2.4.7 on knowledge-based view of the firm).

#### **2.4.4 Entrepreneurship Approach to Internationalisation: Introducing the Born Global & International New Ventures (INV) concepts**

Besides the sometimes narrow conceptualisations of the internationalisation process, earlier process-based models have also been criticised for their inability to capture accelerated forms of

internationalisation that are characteristic of firms in today's more globally connected and technologically advanced economies.

Recent research on internationalising firms, predominantly employing an entrepreneurship approach, (Oviatt and McDougall, 1994 and Knight and Cavusgil, 1996, 2005; Madsen and Servais, 1997; amongst others) have reported a new breed of firms whose internationalisation process "deviates from that of firms commonly observed in the past" (Luostarinen et al., 2002: Abstract) and "presents an important challenge to traditional internationalisation theories" (Knight et al., 2004: 646).

Current studies on internationalising firms postulate strongly that the traditional stages model, in particular, is contradictory to the Born Global (BG) phenomenon explanation of internationalisation. The BG phenomenon refers to those firms who at inception/birth or close to inception have been able to internationalise their activities, often entering multiple foreign countries. Furthermore, these BG type companies often internationalise to markets that could be considered psychically distant. This definition of the BG firm brings into question the explanatory value of earlier theories of internationalisation, in particular the process based, stages theory of internationalisation. Thus BG proponents argue that the process of gradual, sequential internationalisation, based on a series of incremental commitment decisions depending on perception, expectation, experience, and managerial capacity among other things, is not relevant to this new breed of 'born global' firms. Instead, BG firms follow a less deterministic process of internationalisation than that expounded by the stages model of internationalisation (Hashia and Almor, 2004: 467). Therefore, it becomes important to include these new developments to explain the born-global phenomenon, which will be discussed in the following sections.

Thus by using an entrepreneurial approach to understanding the internationalisation of the small firm, international business academics have been able to address some of the deficiencies of the more traditional conceptualisations of the internationalising firm. The following sections introduce the various strands of literature pertaining to the internationalisation of the firm from an entrepreneurial perspective.

### ***Defining the Born Global firm***

The concept of the 'born global' firm has been given a number of names that have been used interchangeably by academics to represent the same phenomenon. Oviatt and McDougal (1994, 1995) refer to such companies as 'international new ventures' and have used the term 'global start-ups' as well. Makgard and Sharma (1999) have used the phrase 'born internationals', while Danna (2001) and Preece et al. (1999) call them 'instant internationals.' Some academics prefer to be more specific in the use of a terminology by associating the phenomenon specifically to a key characteristic of the firm. For example, Moen (2002) focus on the entry mode of the firm and thus refers to such companies as, 'highly involved exporter' (Moen, 2002). Some researchers use the sector of the industry that the firm belongs to, in particular those sectors that are characteristically knowledge and technology intensive in nature, thus the terms 'global, knowledge intensive firms' (Almor, 2000) or 'new technology-based firms' (Autio, 1995, 2000a, b) have also been employed in place of 'born global' firms. Spence (2003: 280) introduces yet another version of the 'born global' firm, the 'born again global firm,' a company that will have started off at inception with a focus on the domestic market, but at some stage due to a shock, either internal or external, will re-invent itself as a 'born global' by undergoing rapid internationalisation. The shock may constitute a change in management or a renewed source of capital or even the change in scope of a domestic customer, all of which would drive the firm to re-asses its domestic orientation.

There have been calls (Bell, 1997) for definitional accuracy, as the term 'born global' alludes to a firm that at inception is global in its international reach and presence. Knight et al. (2004: 646) calls the concept obscure and labels it at best 'descriptive'; as arguably and for the sake of accuracy, no company at inception can be literally present on a global scale. The company has to an effect, establish its existence in one market before it can venture to various other areas of the globe to conduct and expand its business in. Furthermore, a global reach has one visualising a company or its products as present in almost all countries of the world, instead it seems more likely that newly internationalising companies are likely to be present 'internationally', that is, in a few foreign countries rather than spanning the entire globe.

However, for the purpose of this study, the term 'Born Global' and 'international new venture' as coined by Oviatt and McDougal (1994) will be used interchangeably as both serve their purpose. The former not only allows for ease of reference but emphasis accelerated

internationalisation, and as will be discussed later allows one to also use the concept of a ‘born-again global’ which is applicable to this study. The second term, INV, is used for sake of accuracy and to take heed of the possible misconstrued implication of the concept of Born Global as discussed in the above-presented argument. Thus Oviatt and McDougal’s (1994: 47) definition of a rapidly internationalising firm, the INV, is also adopted for use in this thesis. They define the INV as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources from and the sale of outputs in multiple countries.” As Madsen and Servais (1997) suggest, BG type firms adopt an international or even global approach from birth or very shortly after.

An additional point of interest regarding the use of varying labels by researchers, aside the need for accuracy in describing the internationalising process of firms, is the emergence of “speed of internationalisation” as a focal theme. The concepts derived from born global explicitly highlight the greater speed of internationalisation as the defining and distinguishing characteristic between newer and older theories of internationalisation (Zahra and George, 2002; Autio et al., 2000; Jones, 1999). These distinguishing features will be discussed in detail in ensuing sections.

#### ***Working definition of BG/INV***

It is important for all studies researching the BG/INV firm to pick criteria that will help them to identify those companies they would like to study. The most common criteria to be considered an INV firm are foreign sales accounting for 25% or more of total sales and to have started exporting activities within three years of firm establishment (Knight and Cavusgil, 2004; Madsen, 2000). McKinsey and Co (1993), the first study to bring to the fore the concept of a born global or INV, in their landmark study adopted the criteria of five years from inception for export activity and 50% international sales. However, as Andersson et al. (2003: 253) indicate, although it may be important for researchers to use a unified measure to classify BG type companies for purposes of research comparison it is more important for researchers to adapt the operational definition of a born global to the specific context within which it is being examined. This helps retain the study’s meaningfulness to the context.

Some academics restrict the definition of a born global firm to certain niche markets. As they are seen to be prevalent in these markets and are specifically identified as “technologically intensive firms”- however, Dow (2005) and others have highlighted the importance of breaking out of this

constricted and narrow view. They highlight studies that suggest Born Global/INV type firms although may not be prevalent to non-tech related markets do exist in industrial sectors other than technology intensive and knowledge intensive firms (Chetty and Campbell-Hunt, 2004; Madsen, et al., 2000).

Although, at this point it is too early to say which of the theories presented thus far, the older process models of internationalisation or the newer born global or INV theories of internationalisation, is more applicable to the case of the internationalising Indian garment manufacturers, it is still necessary to present a working definition of BG/INV type firms. Thus, in this study the definition proffered by Knight et al., (2004) regarding the Born Global /INV type firm will be used as the working definition to assess whether IGMs fit the born global pattern of internationalisation or not. That is:

Firms less than 20 years old that internationalised on average within three years of founding and generate at least 25 percent of total sales from abroad.

**Knight et al. (2004: 649)**

The choice of the above working definition is consistent with use in other studies for example, Zahra et al., 2000; Oviatt and McDougal, 1994; McKinsey and Co., 1993; Knight, et al. 2004, all employ the above definition. Use of this definition also has the additional benefit of allowing comparisons to be drawn across studies if required.

#### ***Significance of the Born Global/INV theory***

There are several explanations, all to an extent interrelated, of the importance of the discovery of the Born Global/INV type firm. In particular, it has engendered doubts and questions amongst academics on the validity of extant theories of internationalisation. The idea of the INV firm, firstly, brings into question whether there are any major distinctions between so called 'traditional firms' and the newer concept of the 'INV' firm and if so what are these distinctions. Secondly, of what relevance are these distinctions for the study of International Business?

Moen and Servais (2002) in their study highlight the differences between traditional firms and INV firms. Their research findings suggest the traditional firm is seen as one that starts by focusing on establishing a strong domestic base before delving in international operations such

as exports. They are typically companies that have been operational in the domestic market for an average of 27 years before their first attempt at exports and are thus considerably more mature and possess greater experience than the born global firm; their foreign market sales constitute approximately 15%-20% of total sales.

In comparison, INVs are much younger and thus lacking in operational experience. Despite this possible drawback, INVs internationalise their operations, on average, within the second year of incorporation. A significant proportion of the Born Global firms' sales are derived from their overseas activities; Moen and Servais (2002) approximate that 75% of total sales are attributed to their export activities. In addition, they are prevalent in certain industries, in particular, leading edge technology products with niche markets such as scientific instruments or machine tools (Moen and Servais, 2002: 53).

#### ***Characteristics of BG/INVs***

Loustarinen and Gabrielson (2002: 2) identify 7 factors that make up the key characteristics of born global firms that are summarised in Table 3. These characteristics are in stark contrast to those of a traditional firm, whose raison d'être has been based on the domestic customers needs at the beginning of the life cycle of the firm.

Studies conducted by Bell, Young and Crick in 1998 (Bell et al., 2003: 344) in the UK further indicate a distinction between traditional firms and knowledge intensive born global type firms in the type of market they prefer to service. Whereas knowledge intensive firms focus on 'lead markets' such as US, Japan and Europe, the more traditional firm is likely to service 'lag markets' where technology is less advanced in comparison to that found in lead markets. Knight et al. (2004: 649) suggest INVs are mostly small and medium sized enterprises with a high proportion of sales revenue derived from foreign markets. It is specifically their size and the possible drawbacks linked to being small, in particular the lack of resources, that drive such firms to internationalise rapidly and thus compensate for their size limitations. In terms of ownership, they are commonly young and entrepreneurial firms.

Table 3 Characteristics of Born Global firms

<b>Seven Characteristics of Born Global Type Firms</b>	
1	They start international operations even before, or simultaneously with, domestic operations. Thus, the emphasis is on the international rather than the domestic market.
2	They base their visions and missions mainly on global markets and customers from inception, i.e. they start from a global focus rather than a domestic one.
3	They plan their products, structures, systems, and finance on a global basis.
4	They grow exceptionally fast in the global market place.
5	A plan to become global market leaders is a part of their vision.
6	They utilise different product, operation, and market strategies than firms have traditionally done.
7	They follow different global marketing strategies.

*Source: Compiled from Loustarinen & Gabrielson (2002: 2)*

Furthermore, various studies (Freeman, et al., 2006; Knight and Cavusgil, 2005; Spence, 2003; Madsen and Servais, 1997) indicate the prevalence of such firms in innovative and high-tech markets. The studies (Spence, 2003) synonymously link born global type activity to dynamic high-technology markets where the pace of market activities offer slim windows of opportunities in which a firms response time and reaction time is crucial if it is to take advantages of the opportunities present. Etemad (2004: 4) proposes INVs are “compelled by an ever faster pace manifested in shortening product and technological life cycles...and faster technological obsolescence, while facing resource limitations and increased competitiveness.”

What is interesting to note is that very few studies (Rialp et al., 2005b) associate INV or born global type firms with a traditional industry like the garment industry. Instead, it seems that an important distinguishing born global firm characteristic, highlighted by most studies, is their high-technology industry background. Thus whether this type of a firm exists within a low-tech context is a question dealt with in the dissertation.

***Driving forces behind BG /INV type firm behaviour***

Studies on the phenomenon of born global type firms provide varying explanations for their ability to internationalise at a rapid pace in a short time period. Some studies point to ‘global niche strategies’ which drive firms to internationalise at a fast pace (Rasmussen and Madsen, 2002; Almor, 2000; Bonacorsi, 1992; Fujita, 1995), others to the ease with which companies are able to raise capital in foreign markets (Rasmussen and Madsen, 2002).



Researchers have also highlighted the crucial role played by founders of these rapidly internationalising firms. A unique ability of born global firms is their propensity to use creative and innovative means by which to conduct business operations, in turn enabling them to reach international markets much earlier than other companies. These firms in particular benefit from the advantage of being steered by individuals or a group of managers who are creative, have a flair for business, and are innovative by nature. Many are also internationally orientated (Oviatt and McDougal, 1994; Knight, 2000) from the outset and hold “entrepreneurial vision and capabilities” (Hashai and Almor, 2004) to access foreign markets. Studies that focus on the role of the owner/founder of BG firms specify the critical role they play such in driving the early internationalisation of such companies, and indeed some have even gone so far as to list the entrepreneur as a major characteristic of the born global firm (Evangelista, 2005; Bell et al., 2003; Anderson, 2000). Additionally, it is the international vision and drive of the managers or entrepreneurs of the firm that is responsible for nurturing the companies’ global focus from the outset.

The Study by Bell et al (2003: 345) highlights the distinct motivations characteristic of traditional versus born global/INV type firms. Their study indicates a tendency of Born Global firms to be more proactive in terms of seeking international opportunities from the outset and thus more structured in their approach to internationalisation. The motivations of the main decision makers of born global firms lie in the knowledge of their necessity and ability to service a broader niche market base. This is contrasted to the motivations of traditional firms who have been characterised as being more reactive and in their internationalisation activities, wherein they are more likely to adopt a wait and respond policy and tend to act to adverse domestic market conditions, unsolicited orders or a key customer’s needs that pushes them to internationalise.

Research that focus’ on the role of entrepreneurs’ traits and characteristics shows that the entrepreneurs that head BG type firms are likely to have prior knowledge or experience of the international markets that they target. Either they have worked there before or have connections there that can facilitate the provision of relevant and reliable information. Thus Dow’s (2005) and Evangelista’s (2005) studies argue that this prior experience of entrepreneurs helps them to identify opportunities abroad as well as gain foreign market knowledge, thus enabling them to internationalise their operations in what would otherwise seem an excessively risky endeavour.

“Proactive internationalisation has been a matter of necessity” for some low-tech firms, especially in studies conducted by Rialip et al (2005: 144). Their study shows BG firms have a propensity to internationalise at an early and rapid pace due to the lack of receptive market for their product in their own home country. Louostarinen and Gabrielson (2002) also argue that the driving force behind BGs is very much dependent on the BG’s home country and the economic factors prevalent in the home country. BGs from developing countries are mostly driven by the demand from global markets, which draws them or ‘pulls’ to service the market, whereas BGs from more closed, smaller markets are likely to be pushed to internationalise by the need for new, bigger markets that would compensate them for the lack of a domestic market. Furthermore, product characteristics can influence a firm’s international orientation from the outset and thus determine the pace at which a firm may internationalise. For example, Bell et al. (2003) suggest characteristically BG’s try to take advantage of first mover strategy as their products typically having shorter product life cycles where imitation and reproduction products are close behind in the pipeline. This is unlike the case of traditional firms, whose strategy is based on different adversaries that they have to face and different requirements for their product.

Alternatively, studies that have looked at the network perspective on internationalisation (Pla-Barber and Escriba-Esteve., 2006; Anderson and Forgsen, 2006; D’Cruz and Rugman, 1992; Welch et al., 1998; Johanson and Vahlne, 1990; Johanson and Mattson, 1988) ascribe the fast pace and international reach of Born Global/INV type companies to the owners’ reliance on alternative governance structures or market servicing modes. Examples would be the formation of business relationships, networks, and strategic alliances, to overcome the difficulties which otherwise could be encountered in an international arena where it would normally be considered impossible to compete with larger MNC’s with greater resource bases. In effect, such networks enable the firm to create an alternative source of resources which it can rely on in terms of experiences and knowledge of foreign markets, that otherwise may take the individual firm, acting in isolation, a significant amount of time to build up. Christensen and Jacobsen (1996: 7) conclude that different firms have different routes to internationalisation “based on differences in established contacts and knowledge acquired prior to the initiated new business” (cf. also Madsen et al., 1997). In this thesis the use of Indian Diaspora and ethnic ties as a possible form of relational network is explored to test whether they have enabled Indian Garment Manufacturers to access foreign markets, and whether such networks have enhanced their speed

of internationalisation as a result. The role of Diaspora networks is discussed in depth in the ensuing sections of this chapter.

The above explanations, regarding what drives rapidly internationalising firms vary but are not necessarily mutually exclusive; indeed, a number of these factors occur in conjunction with each other, depending on the external factors and the individual case of the internationalising firm.

#### ***Limitations & gaps in Born Global/INV studies***

Numerous studies have been conducted since the emergence or re-discovery of the born global/INV type company. However, most of the studies have focused on explicating the characteristics of this reasonably new type of organisation and its creative ways of doing business. The studies have also concentrated on depicting how the traditional theories are inadequate at explicating the Born Global way of internationalising. However, what is lacking in the literature is the evaluation of such firms. Studies have not reported on the relative success of the Born Global type of internationalisation versus the traditional stages type of internationalisation. Nor is there any indication of the problems encountered or the success rate of Born Global firms. Most studies concentrate on the early years of the Born Global firms and how they delve in exports at inception or very near, but very little is known about the later years and how such firms have progressed.

#### ***The mature Born Global & the failed Born Global***

Gabrielson and Gabrielson (2009) have traced the progress of research on Born Globals (BGs) to date and support that most research in this area has tended to focus on the formative years of BGs' exporting phase. There is scarce research beyond this stage that studies BGs that may have aged and reached more advanced stages of the internationalisation process or otherwise categorised as the 'grown-up' born global. Additional unanswered questions on the subject of born global type firms concern their survival or failure possibilities. What happens to these born globals after their initial years of existence? Do they go on to survive or do they ultimately fail? There is limited studies (Gabrielson and Gabrielson, 2009; Mudambi and Zahra, 2007; Sapienza et al., 2006) that focus on answering these questions. Essentially, there is a need to consider and include the case of the unsuccessful born global.

An unsuccessful born global has been defined in a number of ways (Gabrielson and Gabrielson, 2009). A born global may be one that did not expand their exporting activities on a global scale

and instead were limited to a specific region, country, or foreign market in which case they have not quite achieved born global status but instead are born internationals. In taking this approach Gabrielson and Gabrielson (2009) take the definition of born global literally, in that they see them as having a truly global reach. However, as discussed in earlier sections academics have criticised the use of the term born global as for any company, large or small, to achieve global status is a difficult task. Furthermore, employing a literal definition of BGs is assuming owners/managers of such firms have a global rather than an international outlook at outset of their business activities, which may not be the case, as they may have an international outlook or even a regional or market specific international goal.

BGs could also fail to grow internationally and instead may turn to following a more traditional path to internationalise, where growth is gradual and sequential. Lastly they could altogether fail as a company and go bankrupt being unsuccessful in their international endeavours.

Taking into consideration the case of failed BGs is important if one is to gain a comprehensive understanding of the internationalisation process of born global type companies. It is also important to consider as it helps illustrate what the risks of failure are and what characteristics have enabled more mature BGs to survive past the initial stages of internationalisation.

Thus to be able to assess the possible accession of born global companies into adulthood there is a need for longitudinal studies on the success and performance of Born Global/INV type firms. Evangelista's (2005: 192) study briefly mentions the problem encountered by a case of sustaining rapid growth, as this led the company to make numerous mistakes. Conversely, due to lack of resources the prospects of furthering growth were also considered problematic for some companies in the study. Thus issues hindering Born Global companies' growth and success prospects need to be further examined.

#### ***Product characteristics of BG firms***

Another underdeveloped area of study within the field of Born Global/INV research is the product and its characteristics in influencing INV type behaviour. Many researchers have mentioned that the nature of the product or service could have a possible catalytic influence in speeding up the internationalisation process of such firms (Fillis, 2001). Thus, it is imperative that further research into varying product types is examined and how this may influence the

internationalisation process of a firm, as often emphasis is placed on the predominance of such firms being found from technology intensive or knowledge driven industries. Thus, the continued success of born global firms may lie in the product/service that they are affiliated with, which in turn determines their growth potential.

Although many of the traditional theories of internationalisation have been criticised by researchers of the INV type company, some researchers have found that the resource based theory of internationalisation does hold true, and explicates partially some behavioural aspects of the internationalisation processes of born global firms (Evangelista, 2005: 194).

Moen (2002:10) further suggests that the problem of finance relates not just to the securing of funding but also to the retention of control for the manager/owner of the firm. In certain cases access to external funding through banks or venture capitalists means that the owner has to relinquish control of certain decision making powers, which is an issue that comes in conflict with managerial and ownership desires. Hence, this conflict can pose a threat for many Born Global type firms who are resource strapped and thus would hinder growth prospects if not their long-term survival.

#### ***Born Globals & research in developing world countries***

The results so far of Born Global/INV type companies and their activities and process of internationalisation should be taken with caution, especially when looking at the results' generalisability. It is important to note that most of the studies on the Born Global phenomenon have been conducted mostly in developed countries such as Spain (Rialip, et al., 2005, 2002); Australia, New Zealand, UK and US, (Bell et al., 2003); Sweden (Andersson et al., 2006); Finland (Laanti et al., 2007) to mention but a few. In such countries, the business climate, infrastructure and governance structures are considerably more stable, mature, and advanced than those found in less developed countries, and emerging markets like that of India. Considering this, could have a significant impact on the study of the internationalisation processes followed in less developed markets as well as makes for interesting gap to fill due to the lack of studies assessing Born Global /INV type behaviour of firms in Emerging Markets.

Kuada (2006), Prashanthum (2004a), and Das (1994) amongst others, also bring to our attention the lack of research conducted in developing countries on firms' internationalisation processes

and highlights the need for such studies. Furthermore, it may not be possible to form policy recommendations and advice on strategy formulation for internationalising firms operating in developing countries based on studies conducted in developed countries. Thus, he highlights the need to undertake research on internationalisation processes of firms in emerging markets. This would also help to make comparisons as to whether the born global phenomenon is prevalent in firms from developing markets, and if not, then what process of internationalisation is followed by firms in less developed markets as opposed to developed markets, and how the processes of internationalisation compare to those prevalent in developed markets.

Furthermore, various authors are of the opinion that the Born Global/INV theories still lack comprehensive explanations (Rialip et al., 2005; Servais and Rasmussen, 2000; Oviatt and McDougal, 1999; Knight and Cavusgil, 1996). Oviatt and McDougal refer to the necessity to find more firms that behave in the INV/BG fashion, (i.e. adopt an accelerated international development trajectory) to gain a better understanding of the various features and factors that distinguish these firms from the more traditionally internationalising firm. Therefore, in effect this study helps with further theory building efforts as well as providing a basis for additional empirical research on the increasingly prevalent phenomenon of BG type and INV type firms. It does so in the context of an emerging market, India, and non-technology based industry, the garment manufacturing. Thus, to this extent, this research attempts to address the above-identified gaps regarding the internationalisation processes of firms.

#### **2.4.5 The Micro-multinational (mMNE)**

So far the work on BG/INV has helped to address some of the inadequacies of traditional theories of internationalisation - which tend to focus on the multinational cooperation (MNC) - mainly by providing more adequate conceptualisations for studying the smaller to medium sized, often entrepreneurial-run firm. However, as a result BG/INV theories have concentrated on only one particular servicing mode that is the exporting phase of the small firm. BG/INV studies have not recorded or considered the possible alternative foreign market servicing modes such as licensing, franchising, joint ventures, subsidiaries etc. beyond exporting that firms may undertake (Dimitratos et al., 2003). This is typically due to the assumptions that SME's suffer from the 'liability of smallness' and are thus likely to be resource deficient, so that access to information-, finance-, human-, and managerial- resources amongst others may be in short

supply. Thus alternative internationalisation modes are not considered as potential routes opted by smaller firms but instead regarded as more applicable to the larger firm, the MNC.

However, recent research on SMEs has highlighted cases of smaller firms employing these alternative routes of internationalisation besides the export route. Such firms show varying degrees of resource commitment in foreign markets and thus challenge conventional SME-based internationalisation theories. The term 'micro-multinational' (mMNE) was coined by Dimitratos et al. (2003), to capture the specific characteristics of this new type of internationalised small firm and has been since acknowledged by various subsequent studies (Ibeh et al., 2009; Mathews & Zander, 2007, Allison & Browning, 2006; Ibeh et al., 2004) as an important addition to the existing categories of internationalising SME firms, in particular, born global-, early start-up- and international new venture- type firms.

Dimitratos, et al. (2003: 165) define the mMNE as "a small- and medium- sized firm that controls and manages value-added activities through constellation and investment [C&I] modes in more than one country". The C&I modes are "advanced market servicing modes" (Ibeh et al., 2004; Ibeh, Borchert, & Wheeler, 2009) such as licensing, franchising, joint venture, subsidiary and other servicing modes that require higher commitments than the exporting mode. The implications of this new form of internalised firm, the micro-multinational, dispels the notion that the future global players are spawned from larger multinationals, and that the resource-poverty trap argument does not hold entirely true for all SME type companies. Thus it as suggested by Ibeh et al., (2004: 300) a "potentially useful research direction...might be to collect ...samples of internationally active SMEs, with the view to exploring possible differences amongst...exporters, global start-ups, and mMNEs." And thus it is important to consider the possibility of an mMNE firm when researching and identifying the internationalisation behaviour of Indian garment manufacturers in this study.

#### **2.4.6 Behavioural-Entrepreneurial Based Approach to Internationalisation: Networks**

Some academics posit (Kogut and Singh, 1988; Erramilli, 1991; Chang, 1995; Barkema et al., 1996; Eriksson et al., 1997; Delios and Beamish, 2000; Luo and Peng, 2001; Johanson and Vahlne, 2003) traditional, process-based theories still hold analytical value despite the discovery

of the newer concepts of Born Global/INV type firms. In particular, these academics argue that the concept of 'gradual experiential learning' propounded by traditional process based theories can be useful in examining the internationalisation processes of firms, and indeed are useful in partially explicating the born global/INV type phenomenon. Madsen and Servais (1997: 562) suggest, "it is not necessary to look for completely new theories [of firm internationalisation] to understand and further research Born Globals...[it] partly can be understood and analysed by existing theories and descriptions of internationalisation processes in firms." They go on to explain that although the pace of internationalisation has quickened it does not imply that the companies do not go through certain learning processes.

However, many academics affirm the need to separate these firms during the course of research (Moen and Servais, 2002; Moen, 2002; Dow, 2005) and are strongly opposed to the use of a pure stages-based approach to understanding internationalising firms. They see Born Global/INV type firms as markedly distinct from the traditional firm and further suggest that this newer type of firm, partially a result of today's knowledge and technology driven environment, requires new theories that are analytically more capable in examining the new behaviours. Thus in response to intense criticisms Johanson and Vahlne (2003) acknowledge a need for re-assessing their original stages framework to understanding the internationalisation of the firm.

Considering that some academics criticise the stages approach, whilst others view certain ideas and concepts of the approach as still pertinent for analysis of the internationalising firm, Johanson and Vahlne (2003) propose a new, integrative approach. They consider the influence of business relationships and networks as important drivers of rapidly internationalising firms, at the same time reconciling such a network-based approach with the critical concept of 'experiential learning' from the earlier stages approach to understanding internationalisation. The born global type and INV type firm fall under this type of networked understanding of the internationalising firm, and although presented under the entrepreneurship category in Figure 3, could also fall under the network categories of internationalisation approaches. Johanson and Vahlne (2003) adopt a definition of a business network derived from Cook and Emerson's (1978) definition of exchange networks. What they call business networks are "sets of interconnected business relationships, in which each exchange relation is between firms conceptualised as collective actors" (Johanson and Vahlne, 2003: 92). The focus of this approach is to look at how firms access specific customers and supplier firms rather than



accessing particular markets (the focus of previous theories of internationalisation). By focusing on building relationships through connecting with and gaining access to specific network actors (e.g. customer and supplier firms), the concept of 'psychic distance' that traditional Uppsala model focused on has been to a greater extent rendered irrelevant.

Thus, network based theories (including BG/INV) deviate from the traditional theory of internationalisation particularly with respect to the irrelevance of psychic distance and its inapplicability to born global/INV type firms. As discussed earlier, the traditional theory of internationalisation, in particular the Uppsala Model, posits the importance of psychic distance in predicting that firms will first internationalise to countries that are psychically close to them. However, born global and INV type firms do not display this sensitivity to psychic distance, and network studies show that there is not necessarily a chronology in the way that born global/INV firms internationalise. Thus, the network approach defies the logic of gradual, sequential internationalisation. In essence, the business network model suggests that:

Relationships can be used in climbing over the country market barriers and entering the country market...while the received view of internationalisation assumes that there is only one way of entering a country market - climbing over the barrier to the country market - the network view assumes that there may be several ports of entry and, consequently, several ways of getting into the country market.

*Johanson and Vahlne (2003: 96, 97)*

Furthermore, the network view assumes that "firms organise their business primarily in order to develop, support, and coordinate relationships" (Johanson and Vahlne, 2003: 95). These assumptions lead one to believe that foreign market entry or internationalisation per se is not the main concern, but instead the development of networks and its expansion.

However, it is argued, born global/ INV type firms' internationalisation process is based more on the opportunities open to them that influence their choice of market. It is noted, moreover, that often more than one market is entered simultaneously, rather than being entered in a certain sequential order that is determined by psychic distance. The studies acknowledge the importance of technology developments in helping to gain rapid access to distant markets; for example, access has been made easier by the use of the world wide web, which enables them to target

customers based anywhere globally. More importantly, by incorporating networked-based understandings of how firms internationalise, Johanson and Vahlne (2003: 93, 94) suggest that it is through business networks that firms are also able to rapidly learn about foreign operations and markets and thus truncate time to markets and reduce the need for experiential learning through a sequential, stepwise, process of internationalisation. They combine three types of business network learning, which they have combined using the various types of networks observed in previous studies (Hakaansson and Johanson 2001; Pahlberg, 2001). These are summarised in Table 4.

Table 4 shows how interaction between business partners and developing business relationships help “gradually learn about each other’s needs, resources, strategies, and business contexts” (Johanson and Vahlne, 2003: 93). Through this build up of experiential knowledge, the firm can further commit to building deeper, stronger relationships, as well as building new alternative relationships. Thus, the concepts of ‘experiential knowledge’ and ‘commitment’ are indicative of the influences of earlier stages models of internationalisation on the network explanations of internationalisation of the firm.

However, unlike the stages model of internationalisation, the network model does not focus on ‘experiential knowledge development’ and ‘commitment’ in terms of firms accessing ‘countries’, but rather focuses on explaining and understanding how firms access potential other ‘business partners’ and develop their business relationships and networks. By concentrating on business networks, Johanson and Vahlne (2003: 95, 96) re-focus and in some ways present an alternative application of the definition of psychic distance. Their original definition was centred on psychic distance in reference to countries, that is, what they term ‘country-specific psychic distance’. Their new application of psychic distance is ‘relationship-specific’. Here the concern is the business experience of the internationalising firm in terms of building business relationships and whether it is able to build strong and lasting relationships. Either the internationalising firm seeks out a business partner or is approached by others seeking partnership. There have also been known cases where the firm follows a key partner abroad or sets up connections abroad to further develop relations with the key partner. Thus connecting with like-minded business partners (lower relationship-specific psychic distance) makes it easier for firms to internationalise through further interaction and relationship development. To summarise, the network model sees “firms learning in relationships, which enables them to enter

new country markets in which they can develop new relationships, which gives them a platform for entering other country markets” (Johanson and Vahlne, 2003: 98).

Table 4 Learning from engaging in network relationships

	<b>Learning Type</b>	<b>Describing the different ways to learn from a network relationship</b>
<b>1</b>	<b><i>Learning to cater to Partner Requirements</i></b>	Through establishing a working relationship with customers or suppliers, the firm can learn of the intricacies, needs, wants, and demands of their partners. This allows them to better co-ordinate activities as well as build on a committed relationship through developing and strengthening the relationship.
<b>2</b>	<b><i>Learning Skills</i></b>	Through interacting with a partner, the firm is able to pick up certain skills, learn them, and develop these so that they can be transferred for use when developing new partnerships. This is especially helpful and successful when the new partner has similar traits as the old, such as “partner size, technology, or cultural and institutional settings” (Johanson and Vahlne, 2003: 93)
<b>3</b>	<b><i>Learning Co-ordination of Activities</i></b>	How firms connect with each other and manage these connections can be learnt from engaging in business relationships. Therefore, it may involve coordinating several supplier relationships, for example, just-in-time deliveries. It may also involve relationships between supplier and customer.
<b>4</b>	<b><i>Learning to Build Relationships</i></b>	Learning to build new relationships the fourth effect of learning from networks is a combination of the above three effects, and constitutes how firms build new business relationships and interlink these.

Source: Compiled from Johanson & Vahlne (2003: 93)

Despite this change in focus and the usefulness of the network model presented here, there are some inherent problems. Firstly, the four-fold categorisation of business network learning lacks in terms of the depth with which it carries out analysis of internationalising firms and their network building. For example, it does not help to understand the complexity of the transfer of skills and knowledge that takes place between partners. Secondly, it assumes that through engaging in business relationships the firm will automatically gain from learning experiences and through this increase of commitment; however, these assumptions do not take into consideration the possibility of difficulties encountered if the partner is unwilling or unable to impart knowledge. The last problem is because the study of network relationships focuses solely

on business networks and does not incorporate social or Diaspora networks in helping firms to learn about markets and through this internationalise the business.

Global Value Chain (GVC) theory (Gereffi et al., 2005, Sturgeon et al., 2008), can be used to understand the internationalisation of producers based in less developed countries or emerging markets. In particular GVC looks at local firms that internationalise through participating in the production networks of large foreign buyers. Buyers' can be organised in five different types of network configurations, which in turn determines the dynamics between buyers and producers. Included in these network configurations is the concept of relational networks, where local firms may rely on ethnic ties or networks to internationalise. To this extent it is more comprehensive than Johanson and Vahlne's (2003) conceptualisation of networks, which focuses on business networks. However, the use of relational networks, especially in terms of Diaspora or Ethnic ties is not explicitly studied by GVC theory. Thus, this literature review separately presents Diaspora Networks and Ethnic Ties as a concept in its own right in explaining the internationalisation process of the firm. It does this through reviewing Diaspora Network specific literature and concepts and uses past case studies to help understand the use of Diaspora in enabling firms to internationalise their business activities.

In summary, Johanson and Vahlne have presented a network approach to understanding rapidly internationalising firms. They conceptualised the model through deriving concepts, like 'experiential knowledge' and 'commitment', from earlier process models like the Uppsala model and integrated these concepts into their conceptualisation of the business network approach. However, although the business network approach is important in understanding the rapid pace of internationalisation characteristic of many firms today, the model is underdeveloped for various reasons discussed above. Therefore, this study could employ the relational network approach adopted by the Global Value Chain (GVC) theory (Gereffi et al., 2005; Sturgeon et al., 2008) to study internationalisation. However, GVC is not explicit enough in its theoretical development of relational networks. Thus, the concepts of Diaspora and Ethnic ties will be studied through review of literature that explicitly deals with these themes to understand internationalisation activities and patterns.

### ***Diaspora networks, ethnic ties & internationalisation***

Accessing foreign markets using Diaspora networks – or, as Rauch and Trindade (2002) refer to them, ‘co-ethnic networks’ - has also been identified as a possible route for local businesses to internationalise their activities. Here the use of the term Diaspora refers to those individuals or groups who share a common ethnic identity and who have left their home countries to migrate to or settle in foreign countries for whatever reasons. Diaspora networks are ties that emerge because of sharing a common ethnic identity that will have been pre-formed in most cases (e.g. migrants who reside in their home country before migrating abroad will already have established certain domestic networks which they could then rely on and use once having migrated and settled abroad). For example, Indian IT professionals who migrated to the United States, after having been schooled in some of India’s top schools, predominantly the Indian Institutes of Technology (IITs), later were able to use their Indian-based old school ties for their business requirements in the US (Pandey et al., 2004). In this way US-based Indian Diaspora contributed to linking many IT firms in India to US-based IT firms. Another example of Diaspora ties is the use of family members who have migrated abroad; that is, locally based family members could try and foster international trade either directly with the family members settled abroad or through them gain market knowledge and make contacts. It is also possible that the ethnic ties are not pre-formed as in the above two examples, but are solely a result of both parties’ sharing a common ethnic identity. To this extent, Diaspora networks and ethnic ties are distinct from ‘business ties’, as they tend to be socially embedded, while business ties are more inter-firm and based on a B-2-B relationship formation.

Diaspora networks or ethnic ties are a subset of the social networks of individuals. However, the term social network is rather wide ranging, encapsulating the “totality of the persons connected by social relationships within a population ... and [comprising] relationships that entrepreneurs build with business professionals and government officials, as well as those they have with friends and family” (Kiss and Danis, 2008: 390). Due to such distinctions between social networks, business networks and Diaspora ties, it is important to understand the boundaries of the network participants (Gulati et al., 2000) being researched. In this study, we focus on Diaspora networks, excluding all the other possible types of social networks.

Various studies (Redding, 1995; Saxenian et al., 2002) show that many ethnic groups who migrate to foreign countries create formal or informal ties and associations with co-ethnic people

in their country of origin through which they can then exchange information. Combes et al. (2005), Wagner et al. (2002), and Rauche (2001) have used the concept of social networks and Hayer and Ibeh, (2006) of ethnic networks, to show how these have engendered cross border trade, in particular the use of prior ties that help further international development (Gulati, 1999). The international competitiveness of local firms can be improved through their social networks, which can be informal repositories of foreign market information as well as the required knowledge and expertise for improving competitiveness. Webster (1984, cited in Elo, 2003: 4) considers social networks or connections as a substitute-marketing channel where “Social networks enhance trust and confidence between firms. Effective referral networks emphasise the role of the social network as an information channel creating awareness of potential partner's existence.” Some studies suggest such social ties enable the reduction of information barriers and in doing so reduce potential information costs about distant markets. Rauch (2001: 1184) suggests that immigrants retain active linkages with their networks at “home” and also “know the characteristics of many domestic buyers and sellers and carry this knowledge abroad” with them.

Moreover, Gould (1994) and Rauch and Casella (1998), go further to highlight how Diaspora networks not only help with the provision of market information but also – in the words of Rauch and Trinitade (2002: 116) - “promote bilateral trade by...supplying matching and referral services, for example helping producers find the right distributors for their consumer goods...” The active participation of immigrants with ties to their country of origin helps foster trade across borders and, as we shall see later, further helps explicate the internationalisation of the Indian IT/Software industry and the Chinese garment industry. However, what emerges from a review of literature is the possible importance of the direction of networking, in terms of who is the initiator of the networking process. In most of the existent literature and studies, the migrant has influenced internationalisation of suppliers and manufacturers based in the home country or country of origin of the migrant. This happens because of the migrant's need for certain services or products combined with the knowledge that they can source these from their country of origin (as well as in some cases having connections with the right suppliers or manufacturers). This endorsement of home country services or products has made it possible for home country based suppliers and manufacturers, in turn, to forge international connections and links in specific foreign markets in which these migrants and immigrants reside or have settled. Whether this occurs in the Indian case is not well documented.

Furthermore, academics from the George Washington University have also contributed to the study of cross-border economic interaction or trade between diaspora and their homelands. Past studies have focused on the financial motivations for trade (Cohen, 2005; Mundra, 2005; Gould, 1994); academics such as Gillespie et al. (1999) take a more inclusive approach by considering non-financial based factors as determinants of interest by Diaspora in homeland investments. They explore factors such as “ethnic advantage, altruism, homeland orientation, and perception of business impediments as well as investigating the role of demographic factors regarding investment interests” (Gillespie et al., 1999: 623). In adopting a more inclusive approach to researching diaspora homeland investments the implication is that “profit maximization is not the foremost concern of these investors” (Nielsen and Riddle, 2007: 4) and that what motivates diaspora investments in their homeland comprises a complex combination of factors, as listed above.

However, once again what is interesting to note is that these studies have focused on Diaspora searching for opportunities by fostering links with their home countries. In this study it will be important to research the manufacturers based in the home country fostering links with their Diaspora to internationalise their business.

Prashantham, (2005), Holm et al., (1996), Oviatt and McDougall (1994), Johanson and Mattsson, (1988) merge literature on network relationships and knowledge acquisition to explain small firm internationalisation. Within an international business context the use of social capital theory has been evident in helping to explicate the advantages internationalising firms gain from their social networks. Nahapiet and Ghoshal (1998: 243) defines social capital as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit.” The network relationships within which social capital is embedded are of a variety and include customer-, supplier-, distributors-, and friends- networks amongst others. Thus through using the overarching concept of social capital, academics like Prashanthum (2009, 2005) show how small firms internationalise through forming ties and leveraging these to acquire information and mitigate resource-poverty.

From the literature two examples have been selected to illustrate how Diaspora and Ethnic ties have enabled local producers and service providers gain access to international markets.

***The Diaspora's role in the Chinese apparel sector***

The first case is industry-specific. Here, locally based Chinese garment manufacturers initially benefited from ties and networks with Chinese Diaspora in Hong Kong, Taiwan and Singapore. Apparel traders based in these latter countries, in particular Hong Kong, are former manufacturers turned contractors (or middlemen) that instead of manufacturing directly for their clients became mediators who instead outsource the production functions to third party manufacturers mostly based in China. The initial push for developing such contracted out manufacturing was a result of the rise in labour costs in their home markets during the 1970's, making countries like Hong Kong comparatively more expensive than low-cost producer countries like China. Their economies were no longer deemed cost competitive for the manufacturing of garments, which is a highly labour intensive process and thus greatly benefits from cheap labour input. Therefore, many East Asian based manufacturers formed networks and ties with China-based manufacturers to produce for their Western clients.

In particular, Hong Kong based contractors played an important role in initially paving the way for local Chinese apparel manufacturers' access to foreign markets. Comparison of merchandise trade statistics from 1992 and 1993 reveals "about 80% of U.S. imports from China travel via intermediaries, with Hong Kong accounting for all but 3-4 percent of intermediary trade" (US Department of Commerce News, cited in Abernathy et al., 1999: 4) illustrating the significantly high participation of Hong Kong intermediaries, or contractors, in mediating trade links of some kind. Furthermore, the success of China's high levels of FDI in general, despite its poor ranking in business competitiveness, has been attributed to the role played by Hong Kong investors. A 2003 Survey report carried out by Deutsche Bank suggests slightly over 50% of FDI into China originates from Hong Kong (ElSayed, et al., 2006: 6). Whilst the Report of the High Level Committee on Indian Diaspora (2004: 305) further suggests that overseas Chinese based in Taiwan, Hong Kong (SAR) and Singapore have accounted for over 70% of the average annual FDI inflows of US\$ 40 billion into China. "Some describe Hong Kong as China's access to world markets" (ElSayed, et al., 2006: 7), while others explain how the "Chinese Diaspora has helped change the face of China" (High Level Committee Report: 2004: 305).

Both reports further illuminate the role of the Hong Kong based Chinese Diaspora and their ties, especially to the Guangdong province of China. The crucial role of Hong Kong based Chinese Diaspora in advising the Chinese government of beneficial policy changes that would create an



effective and investor friendly investment climate to attract foreign FDI has also been emphasised upon by both reports. More importantly, Hong Kong based traders also provided China with “management know-how, technology, equipment, design and research, marketing skills, procurement services, and quality assurance” (Enright et al., 2005). This combination of knowledge, skills and technology has helped foster World Class Chinese manufactures who are able to service and produce for World class, demanding Western retailers, including apparel retailers such as Liz Claiborne, Ralph Lauren amongst others. The Chinese manufacturers thus are able to gain access to and use the latest practices, principles, and technology, to service foreign clients who demand quality, timely delivery, as well as competitive prices. Although, many of the higher-end functions associated with apparel manufacturing, such as design, still take place in Hong Kong, and are carried out by knowledge based work forces.

In contracting out the manufacturing these firms played an integral role in helping local Chinese manufacturers to indirectly connect to the production networks of large foreign buyers, and thus enabled them to access international markets through building of ties and networks. It should be also be noted that the learning and knowledge that was imparted to the local Chinese by these East Asian manufacturers has played a crucial role in aiding the local Chinese manufacturers to service the needs of World class buyers. The East Asian manufacturers-turned-contractors served not only as middlemen but also as guiding partners. Having themselves been connected to and servicing World class retailers, they were well versed in meeting the demands of such retailers and were therefore able to impart important knowledge and lessons that could help local Chinese manufacturers cater to the demands of the retailers they were producing for. What this model suggests is that local Chinese manufacturers have been able to shorten their learning curves and to rely less on experiential learning because of networking with their more experienced and knowledgeable East-Asian partners. Whether such ties exist in the Indian case is uncertain. Tewari (1999) does allude to the lack of similar Chinese networks for Indian firms but she has not studied nor elaborated as to why there may be a specific lack of Diaspora ties in fostering cross border trade, especially considering the vast Indian Diaspora base settled overseas, and in major buyer markets such as US and UK amongst others, as is elaborated upon later.

***The Diaspora role in the Indian IT & software sector***

Comparable to the case of the Chinese garment industry, which shares the same industry with IGMs studied in this dissertation, the second well-known case of Diaspora-facilitated access to international markets is the Indian software and IT sector, which shares the same country of origin with firms from this study. Nanda and Khanna (2009) and Pandey et al. (2004) highlight the importance of considering Diaspora influences on the trading patterns and activities of Indian companies. They suggest, “India provides a good setting for such a study [of Indian entrepreneurs’ reliance on Diaspora links to overcome hurdles to their business] because the Indian Diaspora is both extensive and varied, estimated at over 18 million people spanning 130 countries” (Nanda and Khanna, 2009: 6). It is therefore highly relevant to study how Diaspora networks feature in the internationalising activities of Indian garment producers.

The involvement of Indian Diaspora settled in America has been integral in integrating Indian IT companies, initially located in Bangalore in the state of Karnataka, with American IT and software companies (Saxenian, 1999, 2002a, b, 2005; Saxenian et al. 2002; Khanna et al., 2007). Anna Lee Saxenian’s work has been key in illustrating the Indian Diaspora’s role in the internationalisation of the software and IT sectors in India. Various social ties formed during university studies have allowed Indians working in America to construct links with Indian companies. Furthermore, many such Indians have been able to either start up their own companies abroad or hold high managerial positions within US-based companies and therefore have been able to influence those companies’ recruitment policies. Similarly, Prasantam’s (2009) study on Indian IT firms, examined the leveraging of co-ethnic, cross border, ties to facilitate international trade between Indian and foreign firms, the latter mainly situated in the US.

Kapur (2001: 273) suggests “Diaspora networks act as reputation intermediaries and as credibility enhancing mechanisms that may be particularly important in economic sectors where knowledge, especially ex ante knowledge of quality, is tacit.” He illustrates this using the example of the Indian Diaspora’s success in forging links with Indian software programmers to carry out specific related tasks. This in turn has created a reputation for the quality of Indian programmers and has effectively branded their expertise, sending signal of quality just as ‘made in Japan’ sends an ex ante signal of quality in consumer electronics (Kapur, 2001). Thus, in relation to this study, the question arises as to whether IGMs have been able to effectively

leverage cross border, co-ethnic, Diaspora ties in helping them boost their reputation and promote their business activities internationally as has been in the case of the Indian software industry.

In both the above presented cases, i.e. Chinese garment industry and Indian software industry, it is interesting to note that the network-building initiatives come from the Diaspora rather than domestically based firms. The driving force behind such network formation is primarily the fulfilment of the needs of the overseas Indians and Chinese. Evidence of such networking relationships in the Indian garment manufacturing industry is scarce, with only Tewari (1999) suggesting that the Indian model for the internationalisation of apparel manufacturing differs from the Chinese FDI-led model of competitive upgrading within the apparel sector. Her focus is not specifically on possible Diaspora links and networks that may exist in the case of internationalising Indian apparel manufacturers, so she does not take an explicit position on the role – or lack of a role - of Diaspora links in this industry. The literature, therefore, tells us neither whether the links are lacking nor why they might be lacking, giving this research, whose aim is to understand the internationalisation process of Indian garment manufacturers, an interesting and important focus. Nanda and Khanna (2007: 23) further suggest that “while several studies on cross-border ethnic networks have highlighted the important role that they might play in facilitating entrepreneurship in developing world countries, little is known about the extent to which domestic entrepreneurs rely on the Diaspora and whether this varies systematically by the characteristics of the entrepreneurs or their local business environment. Thus it would be interesting to explore the nature of ethnic networking in the context of the Indian garment industry - whether it is prevalent, whether this varies with the characteristics of the entrepreneur or whether it is a result of a local business environment that encourages reliance on Diaspora networks to overcome institutional and informational barriers.

To help guide this study of how Diaspora networks can help local firms internationalise their activities and upgrade their competitiveness through knowledge and technology transfer, as in the above two examples, Kapur’s (2001) work on Diaspora networks seems useful. Kapur (2001: 276) highlights four main factors that influence the importance of Diaspora in terms of engendering technology and knowledge transfer to home country based firms. The four factors are summarised in Table 5.

The above four factors enable Diaspora business-people to play a role in fostering links as well as cross border exchange of knowledge and technology with their home countries. The potential for knowledge or technology transfer depends on the characteristics of the Diaspora. For example, overseas Indian have tended to be mostly in professions such as medicine, engineering and software programming, whereas overseas Chinese have been more entrepreneurially oriented (Kapur, 2001). These differences may have an impact on the types of knowledge or technology transfer that a Diaspora can provide and is an important consideration for the purposes of this study, as discussed in later chapters.

Table 5 Diaspora engendered technology & knowledge transfers

	<b>Characteristic</b>	<b>Explanation</b>
<b>1</b>	<i>Diaspora's Potential Importance</i>	Diaspora characteristics such as size, skill/education, income, and activities engaged in (skilled versus non-skilled labour; tradable sector versus non tradable sector) affect its potential importance in engendering trade, successful links or transfer of knowledge and technology.
<b>2</b>	<i>Realized influence of Diaspora</i>	Host country characteristics as well as country of origin characteristics affect the behaviour of migrants; home country has to be prepared to make use of Diaspora investments as well as nurture and foster policies that encourage such links.
<b>3</b>	<i>Significance of Diaspora as an informal channel of influence</i>	The weaker are the formal institutional structures and environment of the home country the greater is the significance of Diaspora networks, making the Diaspora's informal channel of influence stronger. Nanda and Khanna's (2007: 23) research lends support to this notion "that Diaspora networks help to overcome weaknesses in the informational and contracting issues in developing world countries."
<b>4</b>	<i>Actual influence of Diaspora</i>	The actual influence of the Diaspora will depend on the openness and willingness by their home countries to encourage Diaspora investment and involvement. To an extent, sentiment (e.g., family ties) and patriotism can also influence Diaspora investment.

Source: Compiled from Kapur (2001: 276) & Nanda & Khanna (2007)

This may also account for why a report by the Government of India, Ministry of External Affairs (GOI, 2004: 305) states that whereas overseas Chinese Diaspora have used a combination of family networks and community networks to succeed in internationally, also known as bamboo networks, "Indians have achieved success purely on individual merit...without the help of family networks, [and] guanxi (connections)". The report thus suggests the possibility that no such Diaspora networks exist in the Indian case. However, despite stating the absence of

diaspora ties there seems to be a lack of conclusive evidence, derived from empirical studies, explicitly supporting such statements.

One of the aims of this research is to extrapolate the experiences of the Chinese garment industry and Indian IT industry to the case of the Indian garment industry. This will enable exploration as to whether similar patterns of Diaspora based business networks exist between Indian garment manufactures and Indian Diaspora based in foreign markets, and if so whether the Diaspora has provided an import channel through which Indian apparel manufacturers can tap international markets and foreign buyers. We are also interested in whether such ties, if they exist, have affected the upgrading prospects of Indian garment manufacturers, increasing their international competitiveness by disseminating relevant international market and industry-specific knowledge and technology.

#### **2.4.7 Strategic Management Based Approach to Internationalisation: the Resource-based view & Knowledge-based View**

##### ***Resource-based view***

Resource-based view (RBV) of the firm, in the field of strategic management, has been adopted for use by international business academics to explain the internationalisation activities of small entrepreneurial firms and thus is an important theory to consider when conceptualising the international process of the firm. The resource based view (RBV), as first conceived by Wernerfelt (1984) and subsequently elaborated upon by Barney (1991) and Peteraf, (1993), advocates that the resources owned and controlled by a firm will to a large extent determine the success of the firm in the form of achieving sustained competitive advantages<sup>3</sup>. In essence RBV

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<sup>3</sup> To understand what is meant by *sustained* competitive advantage, it is important to first distinguish between competitive advantage and sustained competitive advantage. Competitive advantage is a ‘value creating strategy’ which has not been implemented by other competitors whilst being employed by the specific value creating firm. Thus *sustained* competitive advantage has an additional clause attached to its definition whereby not only does a firm employ a value creating strategy that is not simultaneously employed by its competitors or potential competitors but also its competitors are unable to copy or duplicate the benefits of this value creating strategy. Thus “a competitive advantage is sustained only if it continues to exist after efforts to duplicate that advantage have ceased” (Barney, 1991: 102). It is important to elaborate that sustained competitive advantage does not infer the period of calendar time during which a firm’s competitive advantage lasts as this is difficult to ascertain for individual industries. Furthermore, it should also be noted that this definition of sustained competitive advantage “does not imply that it will last forever...it only suggests that it will not be competed away through duplication

helps answer why some firms are able to earn superior rent compared to others through attaining a position of sustainable competitive advantage. RBV attempts to address this question by assuming that firms are a “unique bundle of idiosyncratic resources and capabilities” (Grant, 1996: 110) which firms build-up and deploy to their advantage. In order to understand the intricacies of the RBV it is important to understand what constitutes ‘resources’ and what type of characteristics a resource must possess to contribute to the sustainability of advantages of a firm as well as how ‘resources’ differ from ‘capabilities’, the latter being complementary and a necessary to the former.

Barney’s (1991) defines resources as capital and distinguishes between three broad types of capital: physical capital, human capital and organisational capital. Physical capital includes assets such as plant, machinery, technology, access to raw material and the organisations geographic location. Therefore physical capital has the property of being tangible or intangible (Galbreath, 2004). Human capital in comparison is intangible and refers to characteristics such as knowledge, intelligence, experience, judgement, relationships and insight which are directly attributable to individual managers of a particular organisation. The third, set of resources Barney (1991: 101) distinguishes between is that of organisational capital, which alludes to “a firm’s formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal relations among groups within and between a firm and those in its environment.”

However, it is argued that it is not enough to possess these various types of resources if a firm hopes to achieve sustained competitive advantage. These resources need to be harnessed using the concept of capability for a firm to sustain its competitive advantage (Lu, et al., 2010; Makadok, 2001; Day, 1994; Amit and Shoemaker, 1993; Barney, 1991; Grant, 1991). Thus essentially a distinction is made between resources and capabilities, suggesting that they are not synonymous as some literature may treat them (Newbert, 2008). Lu et al. (2010) contrasts Grant’s (1991) and Makadok’s (2001) definitions of resources and capabilities, respectively, to highlight the distinguishing feature between the two concepts. Using Grant’s (1991) definition of resources they suggest “resources are stocks of tangible or intangible assets” (Lu et al., 2010: 421) which include both physical capital and human capital amongst others types of resources

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efforts of other firms [and could end due to] unanticipated changes in the economic structure of an industry” (Barney, 1991: 103).

which firms use in converting raw materials into goods or services. Lu et al. (2010) contrast this definition of resources to Makadok's (2001: 389) definition of capabilities which he defines as "a special type of resource- specifically an organisationally embedded, non-transferable, firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm." Thus in essence attaining sustainable competitive advantage is about harnessing particular resources within a firm that possess capabilities which in turn help to integrate and transform the firm's other resources and enable the firm to create economic rents more efficiently and effectively than its competitors. Barney (1991) further suggests that that these resources that possess capabilities must satisfy two alternate criteria to enable them to generate sustainable competitive advantages for the firm:

First...firms within an industry ...may be heterogeneous with respect to the strategic resources they control [and]...Second...these resources may not be perfectly mobile across firms [that is they cannot be easily bought or sold in the market], and thus heterogeneity can be long lasting

**Barney (1991: 101)**

Teece et al. (1997) subscribes these two criteria of heterogeneity and inimitability to the concept of firm-based capabilities suggesting that capabilities are difficult to acquire or duplicate. This is because capabilities are inherent to individual organisations and specifically embedded in the organisation's particular managers and employees who are the carriers of tacit knowledge and experience which make up capabilities and thus which is not easily transferable. Untangling and isolating the complexities that make-up a capability is difficult to precisely achieve and therefore making specific capabilities difficult to replicate and obtain by others. Thus, essentially Lu et al. (2010) suggest firm resources need to be combined with capabilities for the resources to be mobilised into generating sustained competitive advantage for the firm. Firm-specific capabilities can be "abstractly thought of as 'intermediary goods' generated by the firm to provide enhanced productivity of its resources" (Amit and Shoemaker, 1993: 35).

RBV theory has been used to explain the internationalisation activities of small entrepreneurial organisations. In particular entrepreneurial firms suffer from the liability of smallness and can lack the resources available to larger firms when trying to access foreign market information which is deemed essential if firms are to efficiently and effectively pursue foreign market

opportunities to aid them with internationalising their business (Westhead et al. 2001). Studies show how institutional capital- (Li & Zhang, 2007; Peng, 2003; Oliver, 1997), individual managers- and managerial ties- (Lu, et al., 2010, Castanias and Helfat, 1991), have been exploited as firm-specific resources to overcome difficulties in accessing information. These various types of resources are unique to managers and can help build contacts with potential foreign clients. Institutional capital can be argued to part of a firm's contextual environment within which they are embedded (Oliver, 1997). Thus institutional factors in this study are considered to be external to the firm and include resource provision by government programs, industry agencies and bodies as well as government funded institutions amongst other factors. Such public and industry bodies can influence firms' capabilities and provide firms with important information, assets and resources which domestic firms can manipulate to create sustained competitive advantages. Thus how a firm uses its own resources and capabilities to leverage external institutional capital also becomes an important factor to achieve sustainable competitive advantages.

The presence of institutional factors is well documented within the Indian Economy. There are various government funded institutions, especially educational institutions for both the engineering and management sectors, IIT (Indian Institute of Technology) and IIM (Indian Institute of Management) being cases in point. These institutions have produced World class graduates who have fuelled the international growth of the software industry by enabling Indian software firms to capitalise on the readily available pool of talented and comparatively cheaper software programmers that are the crucial human resources required by software firms. The abundance of highly skilled and comparatively low-cost labour pool has enabled a sustained form of competitive advantage for software firms competing in the international market.

A background survey of literature on the garment and textile industry indicates the presence of similar government funded institutions such as NIFT (National Institute of Fashion Technology) and NID (National Institute of Design). In addition to these there exist numerous apparel and textiles related industry bodies such as CMAI (Clothing Manufacturing Association of India), ATDC (Apparel Training and Design Centre), TEXPROCIL (Cotton Textiles Export Promotion Council), AEPC (Apparel Export Promotion Council), amongst other that also pose as potential sources of trade and other industry information and resources for Indian garment manufacturing firms. To what extent such institutional factors have played an important role in providing



resources to Indian garment manufacturers and to what extent these have been converted by manufacturers capabilities into a source of sustained competitive advantage would be an important point to examine within this study.

Manager as a resource has also been an important source of sustained competitive advantage according to RBV literature. Castanias and Helfat (1991) consider top management and the nature of their skills in obtaining sustained competitive advantage for the firm. Lu et al. (2010) specifically focus on the contribution of managerial ties in engendering sustained forms of competitive advantage for the firm. In the context of a small, internationalising, entrepreneurial firm, Lu et al. (2010) suggest that the liability of newness, in terms of lacking in experience and capabilities in foreign markets, can often be mitigated through the building of ties by management. Lu et al (2010: 422) suggest “the closer the relations that an entrepreneurial firm can build with its foreign business partners, such as suppliers and customers, the more likely it is that the firm will have stable suppliers, better-quality inputs or services, and orders for goods.” Ruzzier et al. (2006) also incorporate managerial ties in the domestic market as an important resource that can be viewed as an element in building sustained competitive advantages for the firm. For example, managers may want to build a strong domestic supplier base which may act as a crucial resource for firm competing in or attempting to compete in international markets. There is little evidence in the existing literature on garment manufacturers of the importance of managerial ties employed as a crucial resource in engendering competitive sustained advantages, and thus would be an important element of the Resource based theory to explore in the context of this study.

### ***Knowledge-based view***

An extension to the resource-based view (RBV) of the firm is the knowledge-based view (KBV). Proponents (McEvily and Chakravarthy, 2002; Spender and Grant, 1996; Grant, 1996a; Grant 1996b; Kogut and Zander, 1992) of the KBV of the firm consider knowledge to be the main strategically significant resource possessed by a firm. Although, RBV acknowledges the importance of knowledge as a potential resource it has been argued that RBV does not lay sufficient emphasis on the central role played by ‘knowledge’ instead treating it in much the same way as other generic resources so that it is not prominently distinguishable from other resources. Knowledge is argued to be a principle resource because it is considered to be socially complex, difficult to duplicate and difficult to transfer from one individual to another thus

making it especially valuable. Its value is intrinsically linked to the unique characteristics that define Knowledge, that is, knowledge is 'inimitable' and 'immobile' compared to other resources. Thus knowledge based resources are not easily replicable by rivals who would otherwise be able to compete away any benefits.

Knowledge is retained and therefore carried within each individual that makes up a firm, however, if this being the case than it should be easy for firms to expropriate knowledge from competing firms by poaching their employees. There are two reasons that have been put forward to suggest that despite the implied mobility it is not easy for firms to easily take advantage of such knowledge. The first reason is proposed by Grant (1996) who argues that such existence of knowledge in individuals is disparate knowledge and not sufficient on its own to act as a form of sustained competitive advantage. Knowledge is only useful through the co-ordination and manipulation efforts of the firm which in turn extracts economic gain in a sustained manner. Markets are not capable of playing this co-ordinating role. Thus this combination of knowledge and firm capabilities is what makes knowledge so effective a resource in terms of attaining sustained competitive advantage for a firm.

The second reason proffered by academics (Hatch and Dyer 2004; Hitt et al., 2001; Klein, Crawford, and Alchian, 1978) for knowledge being not as easily transferable or mobilised across firms, despite human resources or individual who are the carrier of knowledge being able to easily enough move between firms, is the firm-specific characteristic of knowledge. That is, "human capital is most valuable and most imitable when it is firm-specific and resides in the environment where it is originally (optimally) developed" (Hatch and Dyer, 2004: 1155). This is essentially because there is a time lag and cost of adjustment that the new firm must bear before the individual's knowledge can be fully and effectively utilised in the new setting and environment. In addition, the individual's knowledge would have to be adjusted to compliment the new set of resources that comes with the new environment, or alternatively the firm must expend costs to adjust their resource base to accommodate for the new knowledge provided by the individual. Thus it would not be easy for firms to adopt and effectively implement the new knowledge without the systems and processes in place that would unlock its potential and generate a source of value addition activities.

#### **2.4.8 Economic Based Approach to Internationalisation: Transaction Cost Theory and Internalisation**

Transaction cost (T.C.) theory was first conceived by Coase (1937) to explain the existence and behaviour of the firm in relation to the market and is a concept that derives from the field of economics. In essence the theory attempts to explain when a firm chooses between carrying out certain economic tasks itself, within the firm, and when the firm chooses to procure the task on the market from a third party. Thus the theory helps to identify the boundaries within which a firm chooses to operate and gives explanation as to how these boundaries are determined by a firm which will exist within a dynamic and changing environment.

The application of the concept of transaction costs within the field of international business (IB) has been primarily to explain the existence and functioning of a particular type of firm, the multinational enterprise (MNE) (Rugman & Verbeke, 2007). In particular, Buckley & Casson (1976) derived the concept of 'internalisation', which is rooted in transaction cost theory, to explain the boundaries or parameters that drive such firms to internationalise. Rugman (1986) goes as far as to argue that the theory of 'internalisation' is the T.C. theory of the multinational cooperation (MNC) and can be extended to the study of entry mode decisions made by SME's especially with the emergence of the micro multinational enterprise (mMNE) as introduced in earlier sections of this chapter. Thus internalisation offers explanations for a firm's choice for accessing and operating in specific foreign markets, also commonly referred to as 'choice of foreign market entry mode'. It is assumed that the existence of the MNC is due to the particular firm possessing a firm specific advantage (FSA), for example know-how, which it would like to exploit in foreign markets. To exploit this FSA to its maximum potential, that is efficiently, a firm must choose an appropriate mode by which to execute the transaction so that it incurs the least possible cost. A firm can choose from several options of entry modes, the two extremes being the market (arm's length transactions) and the hierarchical (participating in foreign direct investment through operating a wholly owned subsidiary) mode of entry. Which mode they opt for can be explained by the internalisation theory. Thus Buckley and Casson (2009) define internalisation and through this present the explanation for choice of market entry mode. They posit:

Internalisation theory assumes...Rational agents will internalise markets when the expected benefits exceed the expected costs. The profit-seeking managers of a firm will internalise intermediate

product markets up to the margin where the benefits and costs of internalisation are equalised. Within this margin, firms will derive an economic rent from their exploitation of the internalisation option, equal to the excess of the benefits over the cost.

**Buckely & Casson (2009: 1567)**

Thus firms tend to weigh the benefits and cost of undertaking a particular activity as opposed to sourcing it from a third party. If the cost of sourcing the activity or service or product externally is too great it is likely that the firm will internalise the market for that activity and carry out the operations within the boundaries of their own organization. In a foreign setting a firm would have to set-up its own foreign owned subsidiary to carry out the operations internally. However, if to internalise the activity is likely to be more costly for the firm than it would be to outsource the activity to a third party, then the firm is likely to outsource the activity to the market, either through a licensing agreement or through some other arm's length form of transaction. The fundamentals of the theory of transaction cost rely on the assumption that firms operate in perfect markets. In a perfect market there are no transaction costs (e.g. cost of buying or selling), however in reality rarely does one find such perfect market conditions. Instead markets tend to be imperfect. In an imperfect market costs arise, and understanding these costs is important if a firm is to try and minimize them and achieve maximum efficiency.

Thus the fundamental questions being asked is why do some firms choose to operate in foreign markets through arms length contracts whilst others may 'internalise' these activities and therefore set-up their own subsidiary or office in the foreign market rather than depend on a third party to execute the activity in the foreign market. For example, if looking at internalisation and its application to a firms product diversification decisions then organizations may be faced with the decision to backward integrate otherwise known as the 'make or buy decision' where a firm either relies on suppliers to provide them with an input or they may decide to increase the range of products they manufacture and produce the necessary input themselves. Conversely a firm may be faced with a decision to forward integrate wherein it needs to decide whether to use a third party or agent to distribute their product or whether to set-up distribution channels themselves in the foreign market in order to sell their product (Buckely & Casson, 2009).

Internalisation theory therefore helps one to understand how firms' decide - whether based on the product diversification example set above or concerning various other areas of a firms

activities- where the boundaries for their organization's activities lie and also takes into account the dynamic nature of a how a change in circumstance may lead a firm to alter or augment their boundary of activities.

## **2.5 Concluding remarks addressing theories related to the 1st research question**

To summarise, the first part of this chapter has presented various theories and concepts that help explain and explore the internationalisation process of a firm, which addresses the first and partly the second key research question posed in this thesis. The more traditional theories of internationalisation, that is, the process-based model of internationalisation, the newer Born Global/INV theories of Internationalisation and network based theories, particularly Diaspora networks of internationalisation, have been reviewed. In addition, theoretical concepts from a strategic management and economic perspective have also been reviewed in terms of their contributions to understanding firm internationalisation. The weaknesses of the various approaches' have also been presented. The remainder of this chapter presents the theories pertaining to the 2<sup>nd</sup> and 3<sup>rd</sup> key research questions.

## **2.6 Theories addressing the 2nd and 3rd research question**

One implication of globalisation, and the increasing fragmentation of production that it has led to, is that it has opened up internationalisation opportunities for relatively small producers. These producers are primarily based in emerging markets and developing countries and are responsible for undertaking operations outsourced by the world's leading branded companies. To understand the linkages and relationships that these producers need to establish with buyer firms will be the task of this section.

Although the internationalisation theories, presented in the first part of this chapter, have to some extent the ability to explicate the internationalisation opportunities presented by buyers outsourcing their production needs, they are not fully adequate to the task (this applies particularly to the networking concepts of internationalisation. Global Value Chain (GVC) Theory is a conceptual framework that does specifically address this type of internationalisation.

As suggested by Gereffi and Bair (2001: 1888) “the GCC [GVC being the later derivative of the GCC] perspective starts from the premise that analysing the dynamics and structure of global industries is a useful way to understand the local consequences of globalisation for firms and workers.” GVC does this through examining and addressing the key issues of ‘governance’ and ‘upgrading’ that concern this type of internationalisation activity and processes. These concepts of governance and upgrading within production chains in turn affect local firms’ international access and upgrading prospects. Thus, to this extent and for reasons that will be made clearer in ensuing discussions, the (GVC) framework is appropriate for addressing partly the second key research question posed in this thesis as well as being the main conceptual framework employed to guide the examination and investigation of the third research question in this thesis.

The Global Value Chain (GVC) framework has been an influential instrument of analysis developed and used by academics primarily in the field of development studies. The framework has been developed to help understand how specifically developing and emerging market producers can successfully integrate their business activities in the global economy. The framework has undergone various alterations and refinements, as will be discussed in this chapter, to arrive at its current state, presented by Gereffi, Humphrey and Sturgeon (2008), who acknowledge the scope for further theory refinement and building. A fundamental premise of the framework is that through participating in the production networks of foreign buyers, local firms are able to develop and upgrade their production activities through knowledge transfers as well as learning from their buyers. The framework specifically focuses on how local producers participate or insert themselves in the production networks of foreign buyers. Such foreign retailers’ production networks have been one means, amongst a number of others, by which Indian apparel manufacturers have accessed foreign markets and therefore participated in foreign trade (Tewari, 2005c, 2006a, 2008). The underlying concerns for those employing the GVC approach for their research have thus far been to explore the development implications for producers based in developing and emerging market countries. Thus, while the main concerns of GVC-specific studies lie in the area of development economics, this study integrates the framework into the area of international business and internationalisation. The cross-disciplinary nature of the study in itself may have important implications for its contribution.

This section starts by presenting and defining the Global Commodity Chain (GCC) concept, the precursor framework to the Global Value Chain (GVC), and forges links to Dependency Theory

and World Systems Theory to help recognise where the framework's origins lie. The first section establishes the relationship between the GCC and GVC framework. The next section goes on to explicate the important and fundamental differences between the GCC and GVC frameworks, and sets the basis for proposing the use of the GVC over the GCC framework. The differences are concentrated on two levels: the first distinction made is in choice of definition, whilst the second distinction relates to the emergence of the GVC as an attempt to establish a sounder theoretical foundation than that of the GCC. In presenting these differences, the key theories that underpin the development of the GVC framework are also discussed.

The third section proposes relevant alternative conceptual frameworks to the GVC, discussing and assessing their analytical capacities in comparison to the GVC framework. This section argues for the GVC as the more appropriate framework for this study, highlighting its strengths over the alternatives. The theories are presented in two sub-categories: chain metaphor based theories and theories from the study of management and industrial economics. The next section looks at the various ways in which researchers studying different industries have used aspects of the GVC that were relevant for their studies, and how they have refined the GVC as a result. In looking at these various studies, we highlight the weaknesses of GVC and note areas in which further research is needed. Part II of this chapter ends with a concluding summary of the GVC and its relevance to and use in this study. Finally, this chapter ends with concluding remarks regarding the sum of theories and concepts employed to undertake an exploratory study of the International processes and activities of IGMs.

### **2.6.1 GVC and GCC frameworks of analysis**

The theory of the 'Global Value chain' (GVC) as described by Gereffi, Humphrey, and Sturgeon (2005) is based on the notion of a 'value-added chain' of production, which they describe as "the process by which technology is combined with material and labour inputs, and then processed inputs are assembled, marketed and distributed" (Gereffi et al. 2005: 79).

Understanding the Global Value Chain (GVC) framework as proposed by Gereffi, Humphrey and Sturgeon (2005) first requires developing an understanding of its predecessor framework, the Global Commodity Chain (GCC), and its foundations. The GCC approach, proposed by Gereffi in 1994, describes the individual nodes that comprise networks between organisations as

“the sets of inter-organizational networks clustered around one commodity or product, linking households, enterprises and states to one another within the world economy” (Gereffi and Korzeniewicz, 1994: 2). The development of the GCC approach is considered an advance on previous analytical approaches, in particular, the approaches it derives from, that is Dependency and World Systems approach to industrial organization.

### ***Theoretical background of GCC***

The background and conceptual underpinnings of Gereffi’s GCC framework allows one to understand why GCC/GVC proponents have a tendency to focus on development issues or why there is a strong developmental bias towards works that use the GCC/GVC framework. Thus, it serves well to start by understanding the grounding GCC framework to gain an understanding of the evolution of the GVC framework as it is presented in Gereffi et al. in 2005.

The roots of the GCC approach lie in Dependency theory and the World System Approach (Wallerstein, 1974). The concept of ‘commodity chains’ was first used by Hopkins and Wallerstein (1974 cf. Raikes and Friis, 2000) in their World Systems Theory, in which they identify all firms as participating in commodity chains through either being the producers of inputs for others consumption purposes or through being users of outputs bought from others. Both Dependency and the World Systems approach primarily adopt a macro-perspective whereby their unit of analysis is nation states rather than micro-level nodes as advocated by GCC. By taking a macro-perspective, they divide the world into concentric circles, constituted by the wealthier ‘core’ states and the poorer, underdeveloped ‘periphery’ states from which it is assumed resources are extracted and channelled back to core states. This flow of resources from periphery to core further reinforces the status of the affluent ‘core’ to the detriment of the poorer periphery states, locking them into a perpetual state of dependence. It is this issue of inextricable dependence that is the main concern of theorists advocating such Marxist and post-Marxist approaches to international relations.

Even earlier, the ‘filière’ (or chain) concept was developed in the 1960’s by French researchers at the ‘Institut National de la Recherche Agronomique’ (INRA) (Raikes et al., 2000: 15). It is mainly concerned with studying two interconnected themes. The first is to physically map flows of commodities and their transformations into products across countries, in particular agricultural commodities such as rubber, cocoa, cotton etc., mostly extracted in developing



countries, for use in developed or industrialising countries. The second is to link these production activities with two main sets of agents, large firms and national institutions, and show how these agents influence and shape the coordination and flow of activities given the technological constraints they face, thereby determining the developmental prospects associated with the activities. Henderson et al. (2002) suggest that in narrowing down the focus on only these two particular sets of actors, the 'filière' approach excluded the shaping and influencing role of various other actors. The GCC approach introduced other actors such as producers of the raw materials and commodities themselves.

Michael Porter introduced the concept of the 'value chain' to management studies in his seminal 1985 book *Competitive Advantage: Creating and Sustaining Superior Advantage*. While Porter paved the way for GCC in shifting attention from the country level of analysis to the firm, his conceptualisation of the chain differed from that later propounded by the GCC and GVC researchers. Unlike the global value chain, Porter's idea of a 'value chain' is a generic chain metaphor, which he applies to the internal activities of the firm by depicting the firm as a sequential chain of value creating activities. He suggests that the profile of activities a firm performs, such as designing, producing, marketing etc, and the relevant strategy (e.g., a low cost strategy, procurement of high quality raw materials etc) help firms to differentiate themselves from others and therefore create sources of competitive advantage. Porter calls this bounded, firm-specific chain of activities the 'value chain'. He develops the concept further into a 'value system' to incorporate how the individual firm's value chain activities are linked to or 'embedded' in the 'value chain' activities of upstream suppliers and down-stream buyers within an industry. This concept of the 'value system' is similar to elements of the Global Value Chain (GVC) approach.

However, apart from a similarity of definitions in Porter's 'Value System' and Gereffi et al.'s GVC framework, Porter's 'Value Chain' is not sufficiently well grounded conceptually and is a fundamentally inappropriate model for use in this study. Firstly, it can be argued that unlike the Global Value Chain framework, Porter's ideas on 'value chains' and 'value systems' are generic, with their strengths being limited to descriptive abilities in terms of the internal activities that constitute a firm's core competences. Porter's model does not make an attempt to guide the user or researcher in explicating, for example, which combinations of activities or ways of linking them would create this "superior competitive advantage" or give optimal 'value creating' results.

Furthermore, there is no explanation for the basis of selecting the nine particular activities he has chosen to incorporate in the model. In general, the framework lacks being grounded by concepts that have been empirically tested and derived.

The GCC/GVC framework does attempt to move away from a purely descriptive use of the chain metaphor. It starts by distinguishing between buyer-driven and producer-driven chains and in doing so assumes asymmetric power relationships between these different chain types. It also goes further in terms of its explanatory powers by introducing analytical concepts such as 'governance' and 'upgrading' to help explain the varying nature of the relationships between local suppliers and foreign buyers, which in turn governs and influences the level of upgrading activities undertaken by local manufacturers and their efforts to participate in international trade.

The second fundamental, and possibly most important, divergence between Porter's model and the GVC framework is Porter's model's irrelevance in studying international trade as a mechanism for economic development or more specifically in this study upgrading prospects of IGMs. The model purely concentrates on describing firm-based activities or inter-firm activities and how these can be a source of competitive advantage. It does not deal in depth with the relationships between the sets of firms that form the "value-system," nor does it take into consideration the socio-economic context within which the firms' 'value systems' are embedded and their potential affect on the upgrading patterns of local firms and their prospects for internationalisation.

In contrast to the macro-level, nation-centred approaches of dependency, 'filière' and World System theory and the essentially micro, firm-level analysis of Porter, Gereffi (1994) adopts a meso-level of analysis to better help study and explain the "emerging patterns of social and economic organization" (Gereffi et al., 2004: 1) that began in the early 1970's. Using firm activities to explain the organisation of industries, and vice versa, Gereffi analysed the emergence of an increasingly disaggregated and internationally fragmented organisation of production systems characteristic of many industries that emerged during this period. In the vertically integrated multidivisional corporation, production was carried out internally both in terms of being internal to the organisation as well as being internally located within state boundaries. By studying the emergence of globally dispersed manufacturing Gereffi and Korzeniewicz, (1994) was one of the few academics, amongst others, who moved from viewing

trade being confined primarily to raw materials and final products and applied the concept of economic integration to the manufacturing processes of companies. The proponents of GCC viewed and embedded these processes of industrialization in a modified form of dependency theory suggesting “the capacity to produce and export manufactured goods is being dispersed to an ever expanding network of peripheral and core nations alike” (Gereffi. and Korzeniewicz, 1994: 1). In assuming this view, their main concern was to create “a nuanced analysis of world-economic spatial inequalities in terms of differential access to markets and resources” (Gereffi and Korzeniewicz, 1994: 2). They examined how specific industries were organised across nations and thus linked micro-processes with macro-processes.

Gereffi highlights three key dimensions that characterise the GCC approach, summarised in Table 6. The first key dimension focuses on the input of raw materials that are processed and flow to producing an output; the second dimension of territoriality describes the fragmented nature of production, which leads to the distribution of activities across various firms. However, it is the third dimension of governance that really distinguished Gereffi’s work. Gereffi suggests the way in which resources within a chain of production are allocated is dependent on the chain types; that is, whether it is a buyer-driven chain or a producer-driven chain.

Table 6 Key characteristics of GCCs

	<b>Key Dimensions of Global Commodity Chains (GCCs)</b>
<b>1</b>	<i>GCC is based on an input-output structure</i>
<b>2</b>	<i>GCC is territorial</i>
<b>3</b>	<i>GCC operates under a governance structure</i>

*Source: Compiled from Gereffi et al. (1994)*

The popularity of GCC has grown immensely as academics and policy makers enlist it as a framework to analyse varying industries. Industries such as footwear, garments, automobile parts, furniture, and horticulture are a few that have been studied using the GCC and later GVC framework.

Over the years, GCC as a conceptual framework has also evolved as academics fine-tune its definitions and scope of study to better understand the various industries that they are

researching. For example, GCC as a terminology is very generic in its use and applies to the industry under study as a whole, making it difficult to find a starting point at which research can be undertaken when attempting to understand the organisation of production. Thus, the concept was refined to address this deficiency. The ensuing section further discusses the changes that helped evolve the GCC framework toward a Theory of GVC.

#### ***Towards a Theory: GCC to GVC***

The Global Commodity Chain (GCC) framework as developed by Gereffi (1994) in his seminal chapter and co-edited book with Korzeniewicz, has since undergone refinement. Attempts by Gereffi, Humphrey and Sturgeon to raise the framework to the level of a theory are presented in their 2005 paper. Gereffi's (1994) GCC framework has been improved in two major ways: the first is definitional modification and the second is a shift towards development of a conceptual framework through acknowledging and incorporating various typologies of governance and moving away from the over-simplified conceptualisations of governance in terms of buyer-driven and producer-driven chains. The following sub-sections discuss these two major amendments made to GCC that have resulted in the current formulation of the GVC, as it is used in this study.

#### ***Definitional Modification***

The first modification made is in the use of terminology. The term 'commodity' has been replaced by 'value' as proponents of GVC felt the term 'commodity' implied a rather generic use of the word better suited to describe products composed of raw materials in the primary sector, such as agricultural cash crops like coffee, nuts, etc. as well as petroleum products like crude oil etc. Therefore, the term GCC seemed inappropriate to use in describing finished products such as garments, semi-conductors etc. Using the term 'value' helped shift the focus to the actual 'value-added' activities or processes that are performed on the product, from the capital and human labour to convert raw materials into intermediary products or components to achieving a finished product ready for consumption and subsequently disposal of the product for possible recycling. Hence, the concept of Global Value Chain helped to add a 'value' dimension to the Global Commodity Chain in terms of explicating the 'value-added' operations within the production chain. It also helped to distinguish those companies who are able to progress to higher value-added functions/stages of the chain.

### ***Theory Building***

The second modification made to the GCC framework and thus incorporated in the renamed GVC framework has been at a conceptual level. As recounted by Sturgeon et al. (2008: 10) the GVC framework's "goal was to construct a dynamic, operational theory that could account for observed changes and anticipate future developments." Thus he elucidates their keenness to develop the GCC from what they considered to be a static and 'empirical-specific' framework into a dynamic, "industry-independent, firm-level theory of production network governance" (Sturgeon et al.: 2008: 8).

The development of this concept of 'governance' has become the focus of GVC theorists and researchers. Governance is defined as the "authority and power relationships that determine how financial, material, and human resources are allocated and flow within a chain" (Humphrey et al., 2002: 1020). Governance within a value chain is an important factor that influences companies' upgrading prospects, and will be discussed more in depth in later sections of this chapter.

The GVC developers' goal was to take Gereffi's ideas of chain governance, which was conceived predominantly on the basis of his observations during a study on East Asian apparel manufacturers and therefore lacked theoretical underpinnings, and create a concept of chain governance that would be both empirically led and theoretically grounded. Gereffi's (1994) form of governance distinguishes between buyer-driven chains and producer-driven chains, and although this can be useful in some cases, it has been criticised for being an over-simplistic distinction and not always applicable and valid. To address these concerns, GVC framework developers built an augmented 'governance' concept that was more universally applicable as well as more analytically incisive. It is important to broach this subject, as it holds implications for this study as will be discussed.

The following sections explicate Gereffi's original conceptualisation of governance as presented in his distinction between buyer-driven and producer-driven production chains. The section goes on to present the GVC developed governance concepts which move the Global Commodity Chain (GCC) framework towards a Theory of Global Value Chain (GVC) as well as allowing for a more nuanced analysis of the governance patterns affecting Indian garment manufacturers accessing the production networks of foreign buyers.

### ***GCC's governance typology***

In Gereffi's (1994) original presentation of the GCC framework, which he uses to explore the upgrading achievements of East Asian manufacturers producing garments for Western retailers, he makes an explicit distinction between buyer- and producer- driven chains. According to Gereffi and Hempel's (1996: online) definition,

Buyer-driven commodity chains refer to those industries in which large retailers, marketers, and branded manufacturers play the pivotal role in setting up decentralised production networks in a variety of exporting countries, typically located in the third world. This pattern of trade led industrialisation has become common in labour intensive, consumer goods industries such as garments, footwear, toys, handicrafts and consumer electronics.

### **Gereffi (1996: online)**

This is in contrast to producer-driven chains, which are associated to capital and technology intensive production such as in the computer, automobile and aeronautical industry. Here the driving force of production is technology advancements, which the producer firm controls.

However, in making the distinction he does not seek to fully explicate why commodity chains are either buyer-driven or producer-driven by nature. Instead he suggested that labour-intensive industries such as apparel, toys, and shoes amongst other consumer good industries are predominantly buyer-driven or buyer-governed, whilst more technology and capital intensive industries such as semi-conductor manufacturing and auto-mobile components are predominantly producer driven by nature. This distinction is based loosely on the notion that in buyer-driven chains the core competencies and innovative activities lie in down-stream functions of the chain, specifically in the design, branding and marketing functions, with very little innovation or competencies required in the actual manufacturing of the product, which is fundamentally labour intensive by nature. Thus it is easier to outsource the manufacturing stages of the production chain, like the cut, make and trimming (CMT) of garments, whilst the higher value-added activities are retained in-house and carried out by buyers. As explicated by Gereffi (2002: 4, as quoted from Gereffi, 1994):

Profits in buyer-driven chains derive not from scale, volume and technological advances as in producer-driven chains, but rather from unique combinations of high-value research, design, sales, marketing and financial services that allow the retailers, designers and marketers

to act as strategic brokers in linking overseas factories and traders with evolving product niches in their main consumer markets.

*Gereffi (2002: 4, as quoted from Gereffi 1994)*

This is contrasted to the capital intensive and R&D-led manufacturing activities of producer-driven chains that require in-house development or if outsourced to suppliers need to have very close relationship or ‘captive’ relationships with suppliers to protect the leakage of activities to competitors.

However, in hindsight, Sturgeon et al. (2008: 8) suggests this distinction between buyer- and producer- driven chains was made using a context-specific and empirical-specific study of East Asian apparel manufacturers. Furthermore, due to the ‘intense interest’ it received, the distinction was unquestioningly adopted by researchers keen to use the GCC framework as an approach to take up further studies in other industry and country contexts. Earlier studies (e.g. Dolan and Humphery’s 2000 study on the horticulture industry and Schmitz and Knorringa’s 2000 study on the Brazilian footwear industry) using the GCC framework went on to confirm and reinforce the notion that the level of capital intensity of an industry determines the nature of chain governance, i.e. whether the chain is buyer-driven or producer-driven. Both the popularity and the use of the GCC framework grew, and a plethora of studies unfolded. However, over the year’s empirical research in the field (e.g. Sturgeon’s 2002 and Sturgeon and Lee’s study on the electronic and contract manufacturing industry) suggested the distinction made between buyer-driven and producer-driven chains was greatly oversimplified, thus confirming that it could be limited in its predictive or analytical value, as well as confirming GCC does not include the variety of network forms that exists. Ernst in his works also confirms that using a distinction based on capital intensity and labour intensity is misleading. In his study citation he brings attention to that fact that while many high-technology industries like the semi-conductor industry are assumed to be capital intensive, certain production stages of even high-tech industries are highly labour intensive by nature, as is the case in the semi-conductor industry. Thus, it can be said that researchers conducting GCC-based studies increasingly found shifting rather than static governance structures, wherein producer-driven chains were increasingly adopting buyer-type characteristics.

Thus, as Surgeon aptly summarises, “the buyer-and producer- driven GCC typology was based on a static, empirically situated view of technology and barriers to entry, but both are dynamic

because of technological change and firm- and industry-level learning” (Sturgeon et al.: 2008: 9). What follows is a presentation and discussion of the newer, more theoretically developed, and grounded concepts of governance as developed by GVC proponents.

***GVC governance typology***

Over the years the growing body of empirical research carried out using the global commodity chain (GCC) framework (Gereffi, 1994) has helped to refine and enhance the concepts later incorporated into the newer GVC framework (Gereffi, Humphrey, and Sturgeon, 2005, 2008). The work of Gereffi, Humphrey and Sturgeon (2003) took the distinctions made earlier by Gereffi (1994), between buyer-driven and producer-driven chains, and re-focused the definitional emphasis of ‘chain governance’ on elements unrelated to industry typologies and individual industry’s level of presumed technology. Instead, they develop a five-fold governance typology that accounts for the varied networks of governance that exist. The developers of the five-fold governance taxonomy used evidence gathered from empirical research and combined it with theory to arrive at their conceptualisations of governance.

Gereffi (2002: 7) suggests a key hypothesis underlying global commodity chain (GCC) approach is that “development requires linking up with the most significant ‘lead firms’ in the industry.” These lead firms are not necessarily the traditional vertically integrated manufactures, nor do they even need to be involved in making finished products. They can be located upstream or down stream from manufacturing. What intrinsically separates these ‘lead firms’ from their ‘followers or subordinates’ is their control over the access to major resources, such as, product design, new technologies, brand names or consumer demand, that allow them to gain the most in terms of generating the highest profit margins in the industry. By portraying ‘lead firms’ in this manner, it is obvious that Gereffi allocates a healthy share of power to lead firms compared to their ‘subordinate’ suppliers or manufacturers. The GVC approach has refined the GCC with a more nuanced take on this question of the distribution of power. GVC proponents have tried to re-address and redistribute the assumption of power by focusing on the varying relationships or governance networks by which production chains can function. However, emphasis is still placed on a top-down view in which the coordinating and deciding role is played by the ‘lead firm’ as opposed to the supplier, or IGM as is in this study.



Table 7 Contains an overview of the five-fold typology of chain governance (Gereffi et al., 2005; Sturgeon, 2008 et al.: 10), which GVC has advanced as a refinement of the two-fold distinction used by the GCC approach. The typology is presented in the context of their theoretical underpinnings from which they derive. The governance categories presented in Table 7 have their theoretical underpinnings in the works of economic sociologists, industrial economists, and geographers. Economists refer specifically to the theory of transaction costs (Coase, 1937; Williamson, 1975) and the theory of the “relational” view of economic life (Granovetter, 1985) to understand the varying inter-firm governance and industrial organizations that can exist. Transaction cost economists like Williamson (1975) argue that humans do not always behave in a “rational” manner and uses the concept of “bounded rationality” to explain opportunistic behaviour. Thus, when they engage in relationship-specific investments with other firms over time, they are likely to internalise the functions they are buying from the seller. You need to explain a little more about asset specificity, how suppliers with dedicated assets can be held hostage (opportunism) and why incomplete contracts can not solve this problem. This therefore would involve the company supporting a vertically integrated form of governance; hence the ‘hierarchical’ form of governance.

However, this view of ‘rationality and bounded rationality’ taken by transaction cost economists is not shared by Granovetter (1985). Using the “relational” view of economics rather than advocating the opportunistic nature of humans, Granovetter suggests that long-term, inter-firm relationships can exist based on social relationships grounded in trust, goodwill, and cooperation between firms. In such circumstances, a vertically integrated organizational structure need not be adopted and instead a horizontal, network-based organizational structure is likely to develop. These views were further supported by geographers who found evidence of a widespread “network form of industrial organization, based on trust, long-term relationships, social and spatial proximity, and the desire for repeat business on the part of suppliers” (Sturgeon, 2008: 13).

It is thus possible to see how these theoretical concepts form the basis of the GVC framework’s eclectic conceptualisations of governance. The propagators of GVC have incorporated both Williamson’s form of governance (the hierarchical structure) and network-based governance structures in the form of captive, relational, and modular structures, incorporating Granovetter’s perspective on inter-firm governance. Thus, between the two governance extremes of simple,

arm's-length market transactions, and a hierarchical form of governance GVC has located three types of network forms of governance. This forms a spectrum of five possible governance types that are not industry-specific or limited to characterizations based on the industries capital intensity.

**Table 7 Five-fold GVC governance typology**

	<b>Governance Type</b>	<b>Description</b>
1	<i>Market linkages</i>	These are simple, arm's-length transactions and is the weakest form of governance; however, this does not mean that repeat transactions are not possible, but rather that "costs of switching to new partners are low for both parties" (Gereffi et al., 2005: 83). This type of linkage is often cited in value chain based empirical studies as being prevalent in the production of standardised goods.
2	<i>Modular linkages</i>	In such value chain relationships producers will manufacture products according to their customer's specification. The use of transaction codification and digitization to transfer complex information is required and passed on to "highly competent suppliers" (Sturgeon, 2008: 10). Gereffi et al., (2005: 84) refer to this as the provision of 'turn-key services' whereby suppliers are fully responsible for sourcing materials and paying for materials required for creating the product. However they "use generic machinery that limits transaction-specific investments," (Gereffi et al. 2005: 84) and therefore cannot cater to all types of buyers but rather to specific sets of buyers who fit their capabilities, which will be limited as a result of their in-house technological capacities.
3	<i>Relational linkages</i>	"In these networks we see complex interactions between buyers' and sellers' capacities which often create mutual dependence and high levels of asset specificity. This may be managed through reputation or family and ethnic ties" (Gereffi et al., 2005: 84). The type of information exchanged is tacit in nature. Family and ethnic ties, along with Diaspora ties have been investigated in greater depth in Part 1 of this chapter, and thus would compliment GVC's conceptualisation of relational linkages to some extent.
4	<i>Captive linkages</i>	In these networks, the risk of supplier failure is considered high and therefore buyers exercise more control over the activities of suppliers with a high degree of monitoring and the provision of detailed instructions, leaving the supplier with very little room for manoeuvre. The switching costs for suppliers are also considerably high and therefore they are "captive."
5	<i>Hierarchical Linkages</i>	This is the case of the vertically integrated buyer, who internalises all operations and thus will support a high level of asset specificity. The firm's management hierarchy oversees subsidiary activities and manages linkages within the firm. This form of governance is not relevant in the context of this study, which does not look at subsidiaries of buyers but focuses on suppliers that have not been internalised through a merger or acquisition by the buyer.

Source: Compiled from Sturgeon et al. (2008: 10)

Humphrey et al. (2002) suggest that different levels of hierarchy exist within a chain. Producers, who interact on a non-hierarchical level, engaging in arm's length market relationships, are less likely to face governance issues. However, in most developing countries the reality for producers is integration into chains that have a quasi-hierarchy form of governance such as captive, relational or modular. Quasi-hierarchical supply chains involve asymmetric power relationships between firms within the chain. In the garment industry, as in most labour intensive industries, the buyer often has the upper hand within the chain. Being a 'lead firm' means the buyer exercises higher degrees of control over producer firms, determining what will be produced, by who it will be produced, how much will be produced, how it will be produced and by when it should be produced.

### ***GVC & upgrading***

Producer upgrading within a production value chain is the act of moving to a higher value-added activity or function of the chain. A higher-value added function offers not only higher earning potential for a firm but also in some ways builds on the firms capabilities and thus competitive positioning in comparison to other firms competing in the same industry. Kaplinsky and Morris (2001: 43) suggest that "the only way in which income growth can be sustained is through an enduring barrier to entry or- where barriers to entry are transient- by the firm, the region or the country developing the dynamic capability to systematically move to activities in which higher barriers to entry prevail"

The concept of producer upgrading is dealt with in GVC-based studies, and is important to review here as it helps to address the third key research question posed in this thesis, that is, what factors affect the upgrading prospects of Indian Garment Manufacturers (IGMs)? Furthermore, the 'governance' concepts presented above are linked to the notion of producer upgrading, and will be elaborated upon in the ensuing discussion.

This upgrading of activities within the production value chain enables companies to be better equipped against their competitors, allowing them to consider the "high road" to internationalisation as opposed to the "low road" to internationalising. That is, the high road offers a more sustained means of competition as a result of upgrading (thus building on firm capabilities and competencies) than if a firm were to adopt a low road which involves no upgrading activities but instead relies on low cost based competition. However, firms that

choose a low-road strategy, where the strategy is based on a consistent commitment to lowering prices may fall into a downward spiralling trap of immiserising growth (Tewari, 2006c; Humphrey and Schmitz, 2002; Kaplinsky and Readman, 2001). To further validate the importance of adopting upgrading and thus the high road Schmitz (2006: 567) indicates “that the degree of competition, particularly in mature industries such as garments and footwear, is high and increasing, and the profit margins are low and decreasing”, thus depicting an industry where conditions would tend to lead to immiserising growth. Schmitz quote also supports the importance of studying the IGMs upgrading activities as is proposed in this study, and not limiting the focus of this study to examining how IGMs internationalise their activities and what factors aid them to do so.

Kaplinsky and Morris (2001) contribute to the Global Value Chain (GVC) framework by formulating a four-fold categorisation of the possible upgrading trajectories firms can undertake as a means of building on their capabilities. They derive these categories of upgrading through combining concepts from previous work. In particular, they combine various concepts like ‘core competencies’, ‘core rigidities’ and ‘dynamic capabilities’, which they argue, “drive and facilitate improvements in products and processes which arise from the activities of the firm itself” (Kaplinsky and Morris, 2001: 38). These concepts are however, also limited in scope due to being restricted to the firm level, as a result of not incorporating the broader context. Thus, Kaplinsky and Morris expand on these concepts by introducing four upgrading trajectories, as is individually presented and discussed below.

1. *Process upgrading* - involves achieving greater efficiency of internal processes, which could involve re-organising manufacturing processes to enhance the efficiency of production and related activities. Such process upgrading can take place within individual links of the chain (for example achieving lower wastage of materials or increasing output in a given time period) as well as between individual chain links (such as operating on more frequent, smaller batch deliveries, as in the case of just-in-time systems). Process upgrading may require investment in technology and incorporation of sophisticated information technology systems to increase efficiency (Humphrey and Schmitz, 2002: 1018). There has been little process upgrading by the firms in this study, which will be discussed in the analysis and discussion chapter.

2. *Product upgrading* – involves either improvements to old products, by updating them, or introduction of new product categories or lines. In a similar strain to Kaplinsky and Morris's upgrading typology, Humphrey and Schmitz (2002: 1018) have re-classified the product upgrading and assigned it a more buyer-focused heading of 'Organizational Succession'. Thus, they associate 'organisational succession' to producers ascending the value chain in terms of upgrading the type of buyer that it services or produces for. So initially a producer may take on manufacturing contracts from buyers who service the low-end customer market and then gradually shift to taking orders from buyers who serve the high-end market with products that are more sophisticated and require greater detail and skill in production techniques. Although one focus on the product type and the other categorises the product according to the buyer-type, both are helpful taxonomies and serve well in terms of explicating the upgrading activities and therefore both will be used as guiding references. The prevalence of both product upgrading as well as indirectly product upgrading through producer upgrading is relevant to the study of Indian garment manufacturers in this thesis, it also has a higher relevance with case firms than does process upgrading. As will be discussed, the decision to partake in manufacturing new lines, such as expanding from manufacturing men's wear to incorporate women's wear has involved not only the incorporation of new processes required for product development, but also has highlighted alternative factors. For example, factors such as risk perception, and entrepreneurial behaviour, in terms of enactment of opportunities help explain this form of upgrading.

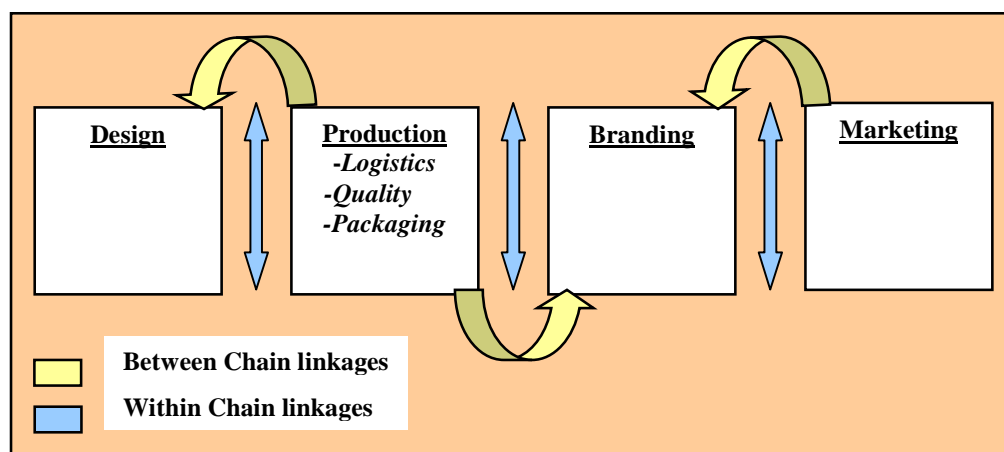
3. *Functional upgrading* – can occur on two levels; the first is a change in mix of activities within the firm itself such as taking on more responsibilities like incorporating the packaging of goods or catering to the logistic and shipping needs of buyers. The second level is functional upgrading between the various links of a chain; for example, a manufacturer may backward integrate into fabric manufacturing function of the garment value chain or forward integrate into the marketing function. Figure 5 depicts the possible types of functional integration described here.

The discussion of functional upgrading by Kaplinsky and Morris (2001) represents an advance on the approach of older chain literature concerning this type of upgrading, as they do not limit functional upgrading to between chain links but also concentrates on within chain links, in doing so they attribute elements of direction and depth to functional upgrading. These considerations

when investigating functional upgrading patterns and possibilities of local manufacturers become crucial especially as often there may appear to be little scope for upgrading within a certain function or certain upgrading activities carried out by manufacturers maybe overlooked or neglected due to the finer intricacies of the nature of the upgrading. Thus, these are more likely to be captured in analysis by using and conducting analysis at finer levels of upgrading. Such upgrading subtleties demonstrated through incorporating within-stage analysis, have proved to be important in revealing the intricacies of the design function upgrading activities of Indian garment manufacturers, which will presented for further discussion in later chapters.

Humphrey and Schmitz (2002) present functional upgrading within the upgrading taxonomy presented above. However, their interpretation of functional upgrading differs from that of Kaplinsky and Morris (2001). Humphrey and Schmitz (2002) argue that functional upgrading is a process whereby old functions are ceased and replaced by newer functions, which are likely to generate higher income for the company. This is relevant for Indian garment manufacturers in explaining their attitude toward functional upgrading (i.e., how they prefer not to remove old functions when introducing new ones, but rather engage in old and new simultaneously, a fact which may due to their practice of accessing not only one production chain but a number of chains of different producers, who may demand different types of product qualities and detail content).

**Figure 5 Functional integration**



*Source: Kaplinsky and Morris (2001: 39)*

The functional upgrading of activities is a key area in which this thesis seeks to contribute. Indian garment producers and their functional upgrading trajectories become relevant when looking at functional upgrading between the manufacturing stage of the apparel value chain and the design function of the garment value chain as is also illustrated in Figure 5. The thesis aims to explore how functional upgrading from manufacturing to design has been accomplished by Indian garment manufacturers. Important questions concern what processes (learning, knowledge transfers, technology transfers etc) are involved in enabling a firm to upgrade from manufacturing to design, what difficulties they encounter and how upgrading to design adds value to their activities. Furthermore GVC-based research investigating functional upgrading, especially to the higher-value added functions of the value chain such as design, branding and marketing, has found limited evidence of local firms being able to break into these activities, suggesting that such areas are mostly reserved for the lead firm or buyer. Tewari (1999) suggests some Indian firms in her research have managed to break into higher value added functions of the apparel manufacturing chain; however, she fails to elaborate clearly on how this has been achieved. Thus it becomes interesting in this study to take her work a step further and investigate whether firms have indeed broken into such higher end functional areas, and if so how have they accomplished this.

As Gereffi et al. (2003: 31) note, due to globalisation and the increasing fragmentation of production, lead firms (whether marketers, retailers or branded manufacturers) are all extricating themselves from the actual production of garments. Instead they are developing global networks of production and sourcing which they use to contract out the manufacturing of the garments and re-import the finished product, whilst simultaneously focusing on building core activities that are higher value added in nature, for example design and marketing. Based on this knowledge Schmitz and Knorringa (2000, 2001) have found that the contracted manufacturers who try and upgrade to areas of design and branding are seen as a potential threat by lead firms, who perceive these as their core activities and therefore view the contracted manufactures as possible competition and encroachment on their core business functions.

4. *Chain upgrading* -involves a firm upgrading to new, related value chains. The example given by Kaplinsky et al. (2001) is that of Taiwanese firms who started by manufacturing transistor radios but upgraded chains and moved on to producing calculators, TVs, computer monitors, laptops and ended with upgrading to the manufacturing of WAP phones. Once again Humphrey

et al. (2002) suggest a similar taxonomy and label it 'Inter-sectorial Upgrading', which they define as a form of horizontal integration where firms move into the manufacture of new product areas or related products. In effect Chain upgrading is when a firm conquers a new value chain.

The application of this type of chain or inter-sectorial upgrading, however, seems less relevant to garment manufacturers. Studies of garment manufacturers do not highlight such types of upgrading activities for garment manufacturers. Thus whether this form of upgrading typology is relevant to this research study, where the focus is Indian garment manufacturers, is questionable (although, as we shall see, chain upgrading, while not a prevalent upgrading trajectory for the companies in this study, may to some extent be relevant in the case of at least one ex-garment manufacturer turned retail solutions provider (or, as their former affiliate described them, a provider of a 'unique blend of Supply Chain and Procurement activities and Retail Solutions functions'). The case of this company is particularly interesting as it not only shows possibly inter-sectorial or chain upgrading but also demonstrates that such upgrading need not necessarily be confined to manufacturing new products, but could also involve upgrading into a different sector category (that is, services as opposed to manufacturing). This will be discussed further in the data analysis and discussion chapters of this thesis.

These four upgrading trajectories are assumed to be sequential in the way producers upgrade. They start with process upgrading and then progress through the next two upgrading trajectories before ending with chain upgrading. Gereffi's (1999) own work on East Asian producers suggests a progression from original equipment assemblers (OEA) to original equipment manufacturers (OEM) to original design manufacture (ODM) to original brand manufacture (OBM) and ending with shifting to new product manufacturing chains.

Thus, Gereffi (1999: 39) propounds that local manufacturers' "participation in global commodity chains is a necessary step for industrial upgrading because it puts firms and economies on potentially dynamic learning curves." His findings from research on East Asian garment producers lead him to argue that local producers who gain access to the global production networks of large retailers or 'lead buyers' have better prospects for upgrading their production activities and can even then go on to upgrade into higher value-added functions such as design, marketing and branding for both domestic and foreign markets. While Gereffi acknowledges the 'many obstacles' to ascending the chain, his focus is primarily on illustrating the sequential



pattern of upgrading, and he devotes very little attention to the ‘many obstacles’ faced by local producers when attempting to upgrade, which constitutes a fundamental limitation to his earlier works and thus gives an opportunity for research in this area to fill this gap.

Various attempts have been made in subsequent studies of the garment industry (Giuliana and Memedovic, 2003) as well as other essentially ‘buyer driven’ industries such as footwear (Schmitz and Knorrninga, 2001) and furniture (Kaplinsky et al., 2003) to address this gap. Their conclusions regarding functional upgrading to higher value-added functions such as design, branding and marketing differ from Gereffi’s. These studies have focused on explaining the ‘obstacles to upgrading.’ The main findings from the studies have concerned the obstacles posed by buyers in the realm of governance, preventing producers from upgrading. Buyers see upgrading to such value-added functions such as design, branding and marketing as a potential threat to their ‘core competencies’ and are therefore are reluctant for producers to engage in such types of functional upgrading, implicitly threatening them with being dropped as a supplier if they do. Research by both Lall (1991) and Hobday (1995) further supports the assumption that it is in areas such as design, marketing and branding that suppliers in labour-intensive supply chains like garments, footwear and furniture (typically the export products from developing countries like India) find it most difficult to upgrade in.

Gereffi and Bair’s (2001) study showed how in the Torreon region of Mexico, jeans manufacturers upgraded their manufacturing operations to include almost the full range of production. Whereas previously they were involved only in the assembly stage of the manufacturing operation, with the accession of Mexico to NAFTA in 1994 and the arrival of a new set of buyers, Torreon manufacturers were enabled to expand their operations to include both sourcing of the raw materials required to manufacture the jeans (e.g. fabrics, accessories like zips etc) as well as participating in operations similar to those of a full package supplier, in which “a local manufacturer receives detailed specifications for garments from the buyer and the supplier is responsible for acquiring the inputs and coordinating all parts of the production process: the purchase of textiles, cutting, garment assembly, laundry and finishing, packaging, and distribution” (Ibid, 1893). However, despite most of the links in the manufacturing chain being located in Mexico, three of the highest value-added links – design, marketing and retail – were not made operational in Mexico. Gereffi and aire (2001:1895) concluded that “these are the highest value-added activities in the chain, and they are also the ones with significant barriers to

entry closely guarded by the foreign firms that control them. US lead firms – whether manufacturers, marketers, or retailers – view these links of the commodity chain as core competencies, and they see design and product development in particular as critical in terms of differentiating their fashions and styles from competitors.”

Whether these limitations in upgrading prospects are also experienced by IGMs is explored in this study.

***Link between value chain governance and upgrading***

The types of chain governance presented in Table 7 are also linked to the upgrading prospects of local producers. The type of governance network a firm is part of (i.e. captive, relational or modular), can supposedly help determine the extent to which producers can upgrade their operations and participate in higher value-added functions in the supply chain. However, there are problems of operationalising the model, especially when enlisting the model to help determine how producers upgrade from a chain with one type of governance to one with another (e.g. moving from a relational value chain to a modular value chain). The model is also not effective in explicating the upgrading prospects of producers. GVC theory suggests that producers in modular and relational value chains work with their buyers on more collaborative terms and are likely to benefit from learning through consistent close contact, interaction and exchange of knowledge.

However, at the same time, the theory requires that for a producer to be able to participate and integrate itself in a modular or even relational chain the supplier must already have a high level of competence and capabilities. Although the GVC theory helps indicate the requisite prior characteristics of a producer that will determine which of the five types of chains the producer can enter into, the model does not explicate how these requisite characteristics can be achieved or by the producer. How, for example, can a producer in a captive chain learn to upgrade its capabilities to be able to access relational or modular chains? The model also assumes that if a company is in a captive chain then it is less likely to learn from the buyer, as the ‘capabilities in the supply-base’ will be low and so the buyer’s ‘degree of explicit coordination’ will be high to compensate for the lack of knowledge of the supplier. That is, in captive value chains the buyer intervenes in production operations to a high degree getting involved in co-ordinating, sourcing, monitoring of quality, design etc, and the supplier is dependant on the buyer to a high degree and

is only responsible for a 'narrow range of tasks' (Gereffi et al, 2005: 87). Thus, it can be assumed that the opportunities for the producer to learn from the buyer in a captive value chain are limited. Similarly, the learning opportunities for a producer in a modular governed value chain are also limited, as the supplier needs to be highly competent in the first place to gain access to, and work in, a modular value chain.

The above argument suggests that although there is a link between producers' upgrading their capabilities and the type of value chain that the producer can access and participate in, explanations are missing as to how this upgrading can be achieved by the producer, and how lead firms contribute in helping producers to upgrade.

A possible solution, albeit simple, to address these questions is to use the upgrading typology introduced by Kaplinsky and Morris presented above, rather than the chain governance typology of Gereffi et al. (2005) as a starting point to explain the upgrading activities of IGMs. By using the governance typology to situate Indian Garment Manufacturers (IGMs) in the four types of value chains, we can make a rough assessment of the level of their capabilities and competences. Then, examining their upgrading activities using Kaplinsky and Morris' typology, we can then compare these with the experiences and findings recorded in alternative studies, presented below, thus allowing for a more complete analysis of the upgrading prospects of IGMs.

### **2.6.2 Studies on role of buyers in producer upgrading**

The role of buyers in helping producers upgrade their operations – with regard to both products and processes – has been observed in various GVC based studies (Giuliani et al., 2003; Schmitz and Knorringa, 2001; Gereffi and Korzeniewicz, 1994). Schmitz and Humphrey (2001) list various other academics (Bauer, 1991; Egan and Mody, 1992; Glasmeier, 1990; Lall, 1991; Weijland, 1994) that have tended to also view buyers as facilitators of the producer's upgrading activities. However, alternative studies suggest varying levels of support proffered by buyers in driving producer's upgrading activities. One study suggests that "buyer support is often crucial for entering a new market but diminishes over time," elaborating that as suppliers gain competence they are less likely to greatly benefit from learning through buyers (Schmitz and Knorringa, 2001: 195).

The conclusions arrived at in Schmitz' (2006: 566) research suggests that "the fast upgrading of the suppliers results from the dual role of the buyers: they are extremely demanding but they also need to provide assistance so that these demands are met. Much of this assistance takes place in the context of detailed monitoring, i.e. not just exposing failure but also showing how these failures can be overcome." From this statement, it is possible to see that Schmitz's a priori assumption is that much of the responsibility and drive for upgrading comes from the buyers. Thus, it will be important to examine whether this type of interplay is also prevalent in IGMs' case or whether IGMs take on more of the onus for upgrading their activities themselves, as suggested by Giuliana et al. (2003: 16), who find that that "the buyer only provides the stimulus to learn rather than the means of learning."

Others (Tewari, 2005a, 2006c; Humphrey and Schmitz 2002; Schmitz 1999) suggest that certain value added functions of the value chain, such as design, are less easy for producers to upgrade to, as buyers are not supportive of this level of upgrading, and see it as producers encroaching on their core activities. However, Kaplinsky et al. (2003) report mixed results regarding upgrading within the design function. They study the role of buyers in the global wood furniture value chain and distinguish between buyers that are "design takers," and those that are "design makers." 'Design takers' are firms who encourage producers to take responsibility for designing, as they themselves have no design capability. This in contrast to 'design makers', who do not encourage their suppliers to upgrade to the design function, as for these companies "direct control over the design process is critical" (Kaplinsky et al., 2003: 14), as they see it as a core function that differentiates their product and thus are reluctant to relinquish control over it. We will explore the question whether IGMs' buyers exhibit such variation in their attitudes toward design.

### **2.6.3 Frameworks to Analyse the Role of the Buyer**

The previous section has shown how various studies have found the buyer to be a driver and aid to upgrading, while others studies suggest that they are a hindrance or at the very least have played a negligible role in determining the upgrading prospects of producers. The latter conclusion is one also arrived at by Ernst and Kim's (2002) and Ernst's (2002) work on the electronics industry:

The flagship [lead firm] can exert considerable pressure on local suppliers ... they can discipline suppliers by threatening to drop them from the networks whenever they fail to provide the required services ... [A]t the same time, GPN also act as powerful carriers of knowledge. First flagships need to transfer technical and managerial knowledge to the local supplier. This is necessary to upgrade the suppliers' technical and managerial skills.

**Ernst and Kim (2002: 1422)**

One of the aims of this thesis also is to examine the role of the foreign buyers in enabling the upgrading activities of IGMs. Whilst GVC theories have helped to understand what types of upgrading firms could achieve or undertake, using the above presented upgrading typology, they fail to explicate or help examine through what mechanisms this upgrading is achieved. Furthermore, although GVC highlights and emphasises the role of the large foreign buyer or 'lead firm' in influencing a producer's upgrading prospects, once again there is a lack of method or clear indication as to how these influences are to be analysed. Researchers have merely alluded to various levels of knowledge imparted from buyer to producer, with very little in the way of theoretical conceptualisation of the process by which producers may learn from buyers.

However, Ernst's (2002a, b) and Ernst and Kim's (2002) work on the electronics industry and its production networks has addressed the gap between upgrading and how it is achieved, especially with respect to learning enabled by connecting with foreign buyers. Thus for the purposes of this study it is important to employ such conceptual frameworks, which can help examine the role of the foreign buyer in influencing IGMs' upgrading prospects. The work of Kim (2002), which presents a matrix for knowledge transfer mechanisms showing the enabling role of the lead buyer (or 'flagship firm') in helping local suppliers/producers upgrade, will be adopted for this study. His model, as depicted in Figure 6 is discussed briefly in this section, and is further explicated and applied in Chapter 6, where it has been employed as a conceptual framework to analyse the role of foreign buyers in the upgrading prospects of IGMs.

Figure 6, presents a matrix for the various mechanisms through which large foreign buyers can transfer knowledge to local producers that participate in their production networks. Firstly, the framework recognises that there are informal (non-market mediated) and formal (market mediated) means through which the knowledge provider (lead firm) can transfer knowledge.

Formal means of transferring knowledge often involves contractual agreements in the form of collaborative ventures, FDI or turnkey type projects. Conversely, informal means are not contractually specified and there is no payment involved, but the lead firm never the less plays a role in advising producers through technical assistance. Secondly, the framework shows how the level of participation and involvement from the lead firm can differ. Lead firms can be active or passive suppliers of knowledge. The active supplier of knowledge invests considerably and will as a result wield greater control over the way in which knowledge is disseminated. However, a passive knowledge supplier plays a negligible role in disseminating knowledge as well having no control over the way in which the local producer makes use of any knowledge gained. In such cases, the onus falls on the local producer to actively seek knowledge as well as actively learn.

The Ernst and Kim (2002) model is underpinned by the use of a varied mix of concepts that derive from literatures on knowledge types, knowledge transfer, learning and the knowledge absorption capacity of firms. This makes the model fairly robust as a result of being derived from an eclectic mix of knowledge-based theories and concepts. Therefore, the model should be useful in examining the role of the lead firm in influencing the upgrading prospects of IGMs.

Ernst and Kim start from the recognition that the characteristics of some types of knowledge, can affect the ability to transfer knowledge from buyer to supplier; this is done by incorporating Polanyi's (1962, 1966) work, which makes a distinction between explicit and tacit knowledge. However, this element of knowledge has also been incorporated by GVC theorists (Gereffi et al., 2005; Sturgeon et al., 2008) who discuss the difficulties firms can encounter when attempting to codify and communicate tacit knowledge. Tacit knowledge is very difficult to communicate and can only be acquired as a result of experience, making it subjective by nature (Nonaka et al., 2000). Various other researchers (Teece, 2000; Kogut and Zander, 1996) believe that context-specificity is what makes it difficult to transfer such knowledge. Nonaka (1994) suggests tacit knowledge is deeply embedded in the human body and mind, and is not easily learned unless possibly demonstrated by the specific carrier of knowledge, who 'embodies' the knowledge (Collins, 1993) or 'embrains' the knowledge (Blackler, 1995). This means the carrier of knowledge would have to travel and meet with the learner for the learner to be able to acquire the knowledge. The characteristics of tacit knowledge play an important role in understanding certain issues that hinder IGMs upgrading prospects as is discussed in Chapter 6 of this thesis.

Secondly, Ernst and Kim's (2002) model incorporates the experiences of various other researchers' studies on knowledge transfer, they indicate that knowledge can be transferred through FDI (Kim, 1991), technical consultancies (Antonio, 2001), and standard machinery transfer (Abernathy and Townsend, 1975). In addition they cite the literature on 'learning by observation,' such as Nonaka and Takeuchi (1995), who through their studies on Japanese automotive and electronics firms suggest their success has been through learning of tacit knowledge through learning by observation and learning by doing on the spot. Here the idea is that tacit knowledge is converted into explicit knowledge, knowledge that can be easily codified and learned. The learners did this by becoming 'apprentices' and working with the masters who embody the tacit knowledge.

Figure 6 Mechanisms for knowledge transfer

		<b>The Role of Knowledge Supplier</b>	
		<b>Active</b>	<b>Passive</b>
<b>Market Mediation</b>	<b>Market Mediated</b>	<i>Formal Mechanisms (FDI, Turnkey, Plants, Technical Consultancies)</i>  (1)	<i>Commodity Trade (Standard Machinery Transfer)</i>  (2)
	<b>Non-Market Mediated</b>	<i>Informal Mechanisms (Flagship Provides Technical Assistance to Local Suppliers)</i>  (3)	<i>Informal Mechanisms (Reverse Engineering, Observation Literature)</i>  (4)

Source: Kim (1991: 110 cited in Ernst and Kim, 2002: 1424)

Lastly, Ernst and Kim (2002: 1427) suggest that 'there is nothing automatic about these processes. Local suppliers need to take an active approach to maximize their benefits from network participation,' as it is not enough to participate in a lead firms production networks and hope to automatically benefit from knowledge transfer using one of the various mechanisms discussed above. Thus, they incorporate Cohen and Levinthal's (1989) concept of 'absorption

capacity'. Absorptive capacity is related to the process by which a firm learns from acquiring outside knowledge. This is linked to the firm's own efforts at research and development (R&D) and thus the, investments, drive, and level of participation with which a firm approaches learning opportunities. Absorptive capacity is defined by Cohen and Levinthal (1990: 128) as the "ability to recognise the value of new external information, assimilate it, and apply it to commercial ends." Three factors - recognising, assimilating, and applying, - are important determinants of a firm's ability to be innovative (Zahra and George, 2002), and thus not only to exploit existing knowledge but also to generate new knowledge, and correspondingly its ability to upgrade its activities and capabilities.

By taking into consideration the concept of 'absorptive capacity' Ernst and Kim (2002), unlike GVC theorists, move away from what could become a purely buyer-centric approach to explicating the learning and upgrading prospects of local producers. They also shift the onus of learning and upgrading onto the producer, whose own willingness to learn is considered equally important. This enables a balanced approach to understanding how local producers learn and upgrade through learning.

#### **2.6.4 Factors exogenous to upgrading**

Humphrey and Schmitz (2002: 1025) suggest:

That the greater the leap in upgrading, the less likely it is that knowledge acquired in existing linkages suffices. Firms will have to rely to a greater extent on local and national sources of innovation...the fact that such upgrading is commonly seen in East Asia but relatively rare in other parts of the world is almost certainly related to the characteristics of industry policy and innovation systems in these countries.

Their comment has important implications for this study. It will be important to consider various external factors, outside of chain dynamics, that also affect the upgrading prospects of the IGM. Thus the exploratory nature of this study, as discussed in Chapter 3, is appropriate in capturing any such factors that may emerge as impacting on firm upgrading activities.



Tewari (2005c) notes that external factors like the role of government policies and institutions in creating support institutions that help nurture a conducive environment in which local producers can thrive are important for economies to build, as they help producer upgrade their capabilities. However, the range of initiatives the Indian government has provided and the extent to which government policies and efforts have had a positive impact on the upgrading prospects of IGMs has not been studied in her research, and will be pursued further in this study.

Another example of a factor exogenous to the production chain of a lead firm is the case of the Chinese Diaspora in enabling upgrading of Chinese garment manufacturers. As mentioned in previous case studies, the Chinese Diaspora in part has played an important role in nurturing and channelling the Chinese garment industry in its internationalisation trajectory. This has also influenced Chinese garment producers upgrading trajectories. The overseas Chinese, who were once suppliers for lead firms, have more recently turned to outsourcing and working with mainland Chinese manufacturers. In doing so, they have been integral in transferring their know-how, skills and expertise to guide and tutor Chinese garment manufacturers and thus facilitate upgrading their capabilities and competencies. Thus, in the case of Chinese garment manufacturers, contextual and historical features play an important role in explicating their upgrading possibilities and success. Such external factors need to be taken into consideration, as the example illustrates how working in the production networks of lead firms is not the only factor that determines the upgrading prospects of local producers.

Thus, this study addresses the issues that surround upgrading and the upgrading prospects of IGMs using Kaplinsky and Morris's (2001) upgrading typology. Although the study looks at the whole range of upgrading activities, it particularly focuses on upgrading in the higher value-added function of design. In addressing the question of upgrading, the role of buyers in enabling Indian manufactures to upgrade has also been considered along with factors exogenous to the value chain that may emerge from the data. However, as Schmitz and Knorringa (2001: 180) observe, "[t]he issue is not whether buyers block or promote industrial development, but under what circumstances they are more likely to play a negative or positive role," which is also the view adopted in this study.

### **2.6.5 GVC theory and upgrading; Problems**

GVC literature predominantly views analyses firms from the developing world who sell to large global retailers based in the west, in particular the EU and US (Humphrey et al., 2002). Although these markets do present a major portion of the consumption of apparel and thus play an important role in the international activities of suppliers from developing economies, GVC fails to acknowledge the importance of alternative types of buyers, including smaller buyers that producers can also service and use as a vehicle to trade in alternative types of international markets, such as the less mature markets of Middle East and North Africa (MENA).

Furthermore, the issue of producer upgrading through knowledge and technology transferred from 'lead buyers' is an important consideration for GVC-based studies. However, evidence regarding this type of learning is mixed. Learning through knowledge transfer is most thoroughly covered by research on the electronics industry, especially the work of Dieter Ernst, which addresses the upgrading prospects of IGMs and is used heavily in Chapter 6. Some work on the shoe and garment industry shows at least tentative evidence of producer learning through knowledge transfers from buyers but the results are not explicitly stated or verified in terms of the concept of learning through knowledge transfer (Gereffi, 1994; Humphrey and Schmitz, 2001b, c; Schmitz, 2006; Tewari, 2006a).

Schmitz (2006: 547) states that "GVC analysis shows that there are new opportunities which come from operating in global chains but also limits and traps." This quote sums up succinctly some of the key issues that GVC research has to tackle to date. Some research has taken a positive approach and looked at the benefits of developing country manufactures 'inserting' themselves or 'participating' in global value chains. In doing so they have highlighted how producers gain through working with lead firms, who help them to upgrade their capabilities. On the other hand, some GVC research has taken a more critical approach to the question of cooperation with lead firms. Such studies find that the gains from participating are not evenly or fairly distributed amongst the chain actors, typically disproportionately benefiting the lead or multinational firm and disfavoring the local producer-supplier. Such research highlights the negative impact of power asymmetries that occur within chains that are governed by lead firms. They show how these prevent firms from upgrading to higher value added activities and in some cases also result in the firm adopting a low-cost strategy that ultimately leads it onto a downward

spiralling path to immiserising growth which in the worse case scenario can result in the demise of the firm.

Regardless of their position on the benefits of cooperation with lead firms, GVC researchers consistently seem to approach the topic from a buyer-centric position, starting from the premise that “National development requires linking up with the most significant lead firms in an industry” (Gereffi and Memedovic, 2003: 4). Their very definition of the lead firm illustrates this buyer-centric view, which seems to almost ascribe omnipotence to the lead firm: “what distinguishes lead firms from non-lead firms is that they control access to major resources (such as product design, new technologies, brand names or consumer demand that generate the most profitable returns)” (Gereffi and Memedovic, 2003: 4). The indigenous producer’s perspective is often overlooked or neglected. Similarly, any factors exogenous to the lead buyer’s production chain are also overlooked. In view of these limitations of the pure GVC-based approach, this study incorporates considerations of both the IGM’s perspective and factors possibly unrelated or exogenous to the production chain of a lead firm. By doing so, it is hoped this study will present a more comprehensive understanding of the issues concerning the international activities and apparel value chain upgrading prospects of IGMs.

## **2.7 Concluding remarks regarding theories addressing the 2<sup>nd</sup> and 3<sup>rd</sup> research question**

This previous section has attempted to establish the various theories and concepts that will be relevant in answering the second and third main research questions posed in this thesis. These include the Global Value Chain Theory, which is used in part to address the second research question and will be the main guiding framework of analysis used to address the third research question. Various aspects of the GVC framework are presented, including its origins, theoretical underpinnings, and the improvements and refinements made to the framework over the years, as well as exploring the weakness of the framework and areas of the GVC framework that require further refinement and development. The concepts of chain governance and upgrading are introduced and their implications for the present research discussed.

## 2.8 Conclusion

Overall, this chapter has presented the most relevant theories and concepts that underpin the study of firm internationalisation and upgrading practices and prospects. It has been necessary to adopt an eclectic mix of concepts that particularly derive from the field of International Business and Development studies, the later of which particularly refers to GVC-based concepts and literature. Firstly, the topic of firm internationalisation and upgrading is of relevance to *both* fields of study, despite approaching the topic from different analytical lens and thus view points. Secondly, adopting an *eclectic approach* seemed appropriate, as the topic of internationalisation and upgrading constitutes a complex mix of factors which no single theory, on its own, is able to explicate fully. Thus, this chapter has presented various theoretical frameworks that are appropriate and relevant when examining firm upgrading and internationalisation. However, forging relationships and links between the two fields of study is as yet necessary in order to guide the present research. The next chapter constructs a conceptual framework that links the above theories and concepts from the fields of IB and literature on GVC to provide a guiding framework that enables collection of relevant findings and analysis of the subject of IGM internationalisation and upgrading practices and prospects.



# Chapter 3 Conceptual Framework

## 3.1 Introduction

This chapter sets out the conceptual framework used to guide this research. Whereas the previous chapter presented a broad range of theoretical frameworks pertaining to the study of internationalisation and upgrading this chapter draws out the most relevant concepts perceived as useful in guiding analysis and explanation of IGM internationalisation and upgrading patterns. There are two main theoretical perspectives reviewed in the literature, the Global Value Chain (GVC) perspective (Sturgeon, et al., 2008; Gereffi et al., 2005) and theories of International Business (IB), the question arises as to which is most appropriate in examining and explicating findings or is a combined approach better, where concepts from both fields are employed? Using a one-theory approach to guide this study, that is, either applying insights derived from an IB perspective or employing concepts and perceptions from a GVC perspective, has its limitations. By employing one of these theoretical frameworks to the exclusion of the other this thesis risks replicates the deficiencies and gaps of existing research. For example, most development based studies have assumed a strict GVC-centred approach in examining internationalisation and upgrading patterns of local firms from developing economies. Furthermore, judging from the weaknesses of each of the theoretical approaches, using any one approach exclusively would prove inadequate at exposing the complexities and intricacies of contributory underlying factors.

The second option would be to combine theoretical concepts and perceptions drawn from both fields of literature, IB and GVC. By opting for a combined approach the deficiencies of one can be overcome by complimenting them with the strengths of the other to arrive at a more comprehensive and coherent conceptual framework through which to study the subject at hand. Therefore this study adopts a combined approach. At this stage it is important to reflect on which particular concepts to extract from each of the broad fields of IB and GVC and show how these can be linked to construct a conceptual framework that helps derive enhanced explanations of IGM internationalisation and upgrading.

Constructing a conceptual framework illustrates, at the outset, the possible linkages and relationships that may exist between the specific IB and GVC concepts and provides a foundation for analysing findings using these preliminary assumptions. Maxwell (2005: 33) defines a conceptual framework as the “system of concepts, assumptions, expectations, beliefs, and theories that supports and informs your research.” Thus, accordingly, the conceptual links forged in this chapter derive from a combination of analytical abstractions. Many of the assumptions, concerns, and limitations presented result from the literature reviewed on the subject area. In addition, the researcher’s beliefs and expectations have also been included in the creation of the conceptual framework. These beliefs and expectations are a result of the researcher’s own implicit interpretation and perception of the various theories examined and how certain aspects of these theories may link together to contribute to a better understanding of the internationalisation and upgrading prospects of the IGM.

The ensuing sections establish preliminary links and relationships between GVC and IB literature and propose a conceptual framework to guide analysis carried out in later chapters. The aim is to generate discourse between the preliminary assumptions formed in this chapter (that are also informed by theory) and the explanations provided in the discussion chapter, whereby having analysed findings it should be possible to judge whether these preliminary assumptions stand their ground or whether there are contentions which requires modification to the proposed conceptual framework and its underling assumptions made in this chapter.

### **3.2 Towards building a conceptual framework**

This study examines the internationalisation and upgrading prospects of Indian garment manufacturers using two theoretical approaches: IB literature and GVC literature. When analysing the study from an IB lens internationalisation and upgrading activities are viewed as individual firm initiatives that are primarily determined by the firm’s own efforts, experiences, decision-making prerogatives and the context within which the firm is embedded (be it domestic or international). Conversely, when approaching the subject from a GVC perspective, particularly the choice of upgrading is no longer seen as a decision taken by individual producer firms guided by their needs but more so one that is predominantly managed and controlled by the lead buyer and *their* production needs. GVC approach suggests that through the varying

range of governance structures (i.e. market based through to hierarchical), that characterise lead buyers production networks, determines local suppliers' prospects for internationalisation and upgrading. As it is the lead buyer who makes decisions - based on the particular governance structure they choose to operate within - on how, what, where, when and by who the product will be manufactured. GVC theorists' depiction of how local firms fit and participate in global trade infer various portrayals of the relationships between local suppliers and foreign lead buyers and how these relationships affect the upgrading and internationalisation prospects of the local firm.

### **3.2.1 Assumptions on the internationalisation practices of IGMs**

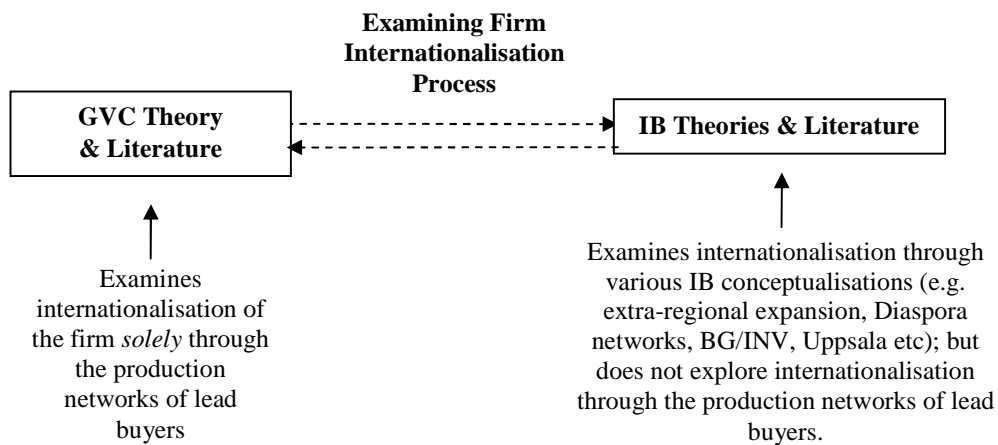
There are two main suppositions that can be made regarding local firm internationalisation practices and prospects. First, GVC theory examines firm internationalisation from a specific type of foreign market entry mode, that is, through the production networks of the lead buyer. This is to the exclusion of various other foreign market entry modes or trajectories. Although, this allows researchers to gain an in depth insight into the dynamics of internationalisation activities linked to large retailers production networks, it still as a result does so at the cost of forgoing the possibility of alternative internationalisation activity choices open to local firms. To this extent this study explores and supplements GVC theory with a range of alternative internationalisation routes undertaken by IGMs, as informed by IB theory and literature. These include pre-export activities such as counter-trade (Welch and Luostarinen, 1992), extra-regional expansion (Wiedersheim-Paul et al., 1978) and I-models of internationalisation (Bilkey and Tesar, 1977; Cavusgil, 1980; Reid, 1981; Czinkota, 1981); other processes of internationalisation include the use of diaspora networks and ethnic ties (Kapur, 2001; Pandey et al., 2004; Nanda and Khanna, 2009), Uppsala model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), de-internationalisation (Paulwels and Matthyssens, 1999; Welch and Wiedersheim-Paul, 1980), born global (BG) (and its various forms i.e. the mature born global and the failed born global) (Oviatt and McDougal, 1994, 1995; Knight and Cavusgil, 1996) or International new venture (INV), the micro-multinational (Dimitratos et al., 2003) amongst various other theories reviewed in Chapter 2.

However, conversely, it could be argued that IB literature focuses mainly on the internationalisation processes of the firm, whilst GVC literature links local firm internationalisation to the production networks of foreign lead firms and to this extent there is a



lack of theories in IB focusing specifically on the type of internationalisation achieved by firms who participate in the production networks of lead buyers, and thus to this extent GVC literature plays an important complimentary role in furthering the understanding of IB literature and foreign market entry modes. Figure 7 illustrates this missing link (depicted by the two dotted arrows) when examining internationalisation using the two broad fields of study, that is GVC theory and IB theories of internationalisation. The links established in Figure 7 will constitute the first part of the conceptual framework presented in the ensuing section of this chapter.

Figure 7 Examining firm internationalisation: Linking GVC & IB theory



Source: Author's Own

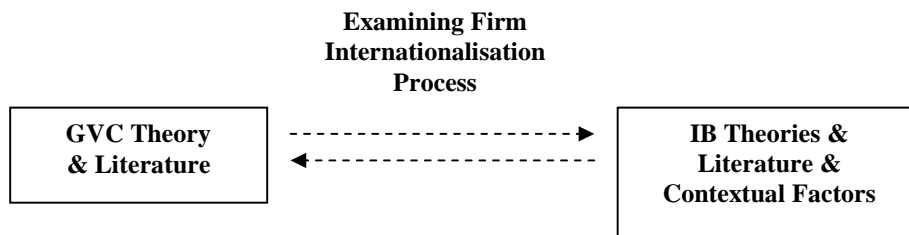
Second, in GVC literature internationalisation itself seems to be synonymous to a form of upgrading. The overall perception left by GVC research and theory is that internationalisation and its unrelenting pursuit is necessarily a good thing, especially when undergone by connecting to the production networks of large lead buyers. This overtly positive characterisation of the relationship between internationalisation and development is the feeling one gets when reading through GVC based literature. That is, there seems to be a prevalent assumption that internationalisation through the production networks of lead firms is linked with positive development outcomes. However, this view is contested when considering certain conceptualisations of firm internationalisation from an IB perspective. For example, IB concepts such extra-regional international expansion (Wiedersheim-Paul et al., 1978) bring to question

whether achieving cross-border international trade as early as possible is the foremost necessary condition for positive development outcomes and therefore should be considered a priority for local firms wanting to advance and upgrade their business activities and prospects. Instead it is possible to argue firms should approach the activity of internationalisation more gradually by first considering expanding within their home markets and building experience through such means before expanding into foreign markets. Thus although, the production networks of lead firms provides a fast track route to entering foreign markets it may not be always advisable for an inexperienced firm and indeed is not the only option available.

The expectation from this study is to find, that to some extent, IGMs are eager to internationalise their operations and that they do this predominantly through attempting to participate in the production networks of lead firms, as this provides them with an opportunity to internationalise at a faster pace. However, it is also expected that despite IGMs eagerness to participate in lead firms' production activities there may be alternate factors, contextual factors, that provide IGMs not only with the ability and drive to internationalise in the conventional sense but also when using indirect or unconventional conceptualisations of internationalisation portrayed by IB literature, in particular extra-regional expansion (Wiedersheim-Paul et al., 1978) and possibly even de-internationalisation. Thus contextual factors evident in the literature such as the presence of government funded national institutes of fashion technology, NIFT, provides IGMs with technical, managerial and skilled workforce for the garment industry, and may constitute a crucial component in aiding IGMs to internationalise in the more conventional sense, i.e. engaging in foreign, cross-border trade.

On the contrary, it will be important to explore the impact of alternate context specific factors such as a growing domestic market, on the internationalisation activities of IGMs, whereby unconventional, indirect conceptualisation of internationalisation such as extra-regional expansion (Wiedersheim-Paul et al., 1978) and de-internationalisation offer better explanations of the processes underway. The important role of contextual factors is further explored in ensuing sections. Therefore it is necessary to adjust Figure 8 and include contextual factors to internationalisation theories when examining firm/IGM internationalisation. Figure 8 depicts the adjusted version of Figure 7; where the latter rather than the former figure will constitute an element of the conceptual framework presented in the forthcoming section of this chapter.

**Figure 8**      **Examining firm internationalisation: Linking GVC, IB theory & Contextual factors**



*Source: Author's Own*

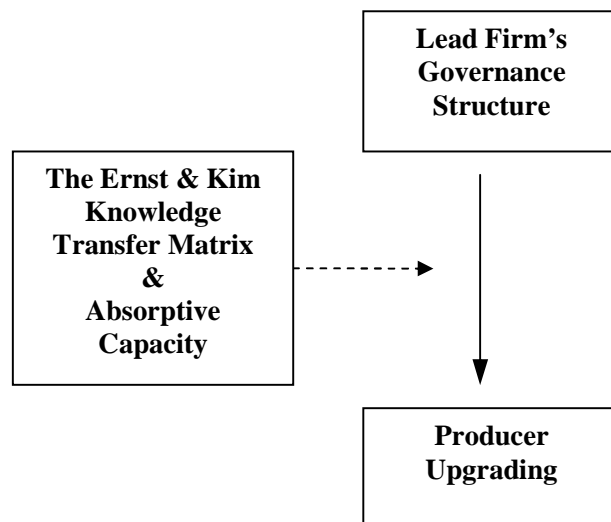
### **3.2.2 Assumptions on the upgrading activities and prospects of IGMs**

When examining local firm upgrading there are a number of assumptions made regarding prevalent literature on upgrading and the observations expected from this study. First, there is a strong allusion of the existence of power asymmetries between local firms and foreign lead buyers, and that this imbalance of power in many low-tech industries like garment manufacturing is skewed in favour of the lead buyer. There are various types of governance structures, from market to hierarchical, that lead firms can choose from when working with local producers. These governance structures vary in their administration of autonomy levied to producers by the lead buyer, whereby a relational governance structure sees a sharing of responsibility and decisions making between buyers and producers, unlike a captive governance structure where the decision making is very much in the hands of buyers. Thus much of the GVC-based literature and research (Sturgeon, et al., 2008; Schmitz, 2004; Humphrey and Schmitz, 2004, 2001a, b, c; Gereffi, et al., 2005) is devoted to the study of such power imbalances or variances in governance structures and how these may affect the upgrading prospects of local firms with conclusions either indicating that lead firms help (in terms of imparting production and other industry specific knowledge to producers) or hinder (in terms of limiting producers autonomy in certain activities, particularly the design function) local manufacturer upgrading.

However, it is difficult to comprehensively investigate any kinds of knowledge transfer activity taking place using the GVC framework as it does not provide a mechanism through which to analyse knowledge transfer flows. Most GVC research only makes references to benefiting from knowledge transfer but do not discuss the methodology used in assessing knowledge transfer

procedures. Thus to enhance this study's analysis of knowledge transfer activities The Ernst and Kim Knowledge transfer matrix (1991) is incorporated. Furthermore, to make the analyse comprehensive it is important to combine GVC not only with Ernst and Kim's Matrix but also use the concept of absorptive capacity (Cohen and Levinthal, 1989; Ernst and Kim, 2002). This suggests not only the importance of transfers of knowledge from buyer to supplier but also moves away from only considering a unidirectional dimension of learning and goes a step further by incorporating the need for recipient firms of knowledge to be able to effectively absorb the knowledge learned and convert it into value enhancing outcomes. Thus GVCs inability to effectively analyse knowledge transfer and absorptive capacity of firms is an additional component to building the conceptual framework presented in a later section of this chapter. Figure 9 establishes the link made between established GVC theory and concepts from The Ernst and Kim knowledge transfer matrix and from the concept of absorptive capacity. The solid black arrow represents the pre-established link regarding knowledge transferred from lead firm to local producer to aid local producer learning and upgrading, whilst the horizontal dotted arrow incorporates the addition of the Ernst and Kim's matrix (1991) and the concept of absorptive capacity (Cohen and Levinthal, 1989; Ernst and Kim, 2002) to facilitate the analysis of this pre-established link.

Figure 9 Incorporating the Ernst & Kim Matrix & concept of Absorptive Capacity



Source: Author's Own

It is expected that there will be some knowledge transfer taking place between lead firms and recipient IGMs, most probably using formal knowledge transfer mechanisms, as described by the Ernst and Kim Matrix (1991). However, it is assumed any such knowledge transferred will be limited to aiding certain types of upgrading only, in particular product and process upgrading, as buyers do not consider these to be their core activities. In contrast, when attempting to upgrade to the design function it is assumed IGMs will face considerable resistance from buyers who are likely to limit IGMs' autonomy in this activity as GVC research suggests design to be the core activity of lead buyers who are wary of any encroachment by producers. Therefore there is unlikely to be any forms of knowledge transfer concerning the design activity from buyers to suppliers, and instead it is expected buyers will hinder any attempts by IGMs to design,

Second, GVC theory offers a useful four fold typology for studying the upgrading activities of IGMs, as covered in Chapter 2. The rarest form of upgrading, Chain upgrading, has so far only been reported in studies concerning the electronics industry and not observed in studies on low-tech industries. Therefore, chain upgrading although included in the conceptual framework for this study is not an expected finding for firms from this study. However, the three other upgrading typologies are considered for examination in this study. Here it is believed that to gain better understanding of IGMs upgrading prospects and patterns combining IB theories with GVC upgrading typology could help achieve deeper analysis and understanding of local firm upgrading prospects; the linkages between GVC upgrading and IB theories are explored below.

#### ***Supplementing GVC with the concept of Internalisation***

The IB concept of internalisation, as conceived by Buckley and Casson (1974), is particularly relevant in further explaining the activity of product upgrading. Here the local producer, the IGM, will be seen to internalise the activity of producing a product or will expand an existing product range by adding new product lines rather than sourcing the product from a third party producer. The act of internalising production or upgrading to a new product range is not always about value addition (creation) but can be understood as a rational choice made by the internationalising firm to contain costs. Similarly, between-chain, functional upgrading whereby a firm decides to forward- or backward- integrate is also explained using the concept of internalisation. The decision to internalise depends on whether the firm believes it would be more cost effective to carry out the activity themselves rather than source it from a third party which may incur higher costs and affect their products margins when competing internationally.

### ***Supplementing GVC with RBV & KBV concepts***

Alternatively, the Resource Based View (RBV) (Wenerfelt, 1984; Barney, 1991; Peteraf, 1993) and the Knowledge Based View (KBV) (Kogut and Zander, 1992) of the firm may also help explain functional upgrading, particularly design upgrading. It may be that design upgrading is not only the core activity of the lead firm who hinder or deter IGMs from designing but that design itself requires specific knowledge and resources, such as human resources in terms of skilled and able designers who can cater to the needs and tastes of the Western markets that lead firms are located in, that may not be readily or easily available to IGMs and thus could be hindering their progress to upgrading to the design function.

### ***Supplementing GVC with concepts from International Entrepreneurship***

Literature on international entrepreneurship (Oviatt & McDougall, 2005) recognises the entrepreneur as an important figure in enabling the rapid internationalisation of the firm. International entrepreneurs' are the mediating force of internationalisation and possess international vision from the outset as well as being able to identify an opportunity and enact it. These and potential other entrepreneurial characteristics may affect upgrading prospects of IGMs, particularly in the case of the more rarer Chain upgrading category, where a firm adds a new value chain to its existing value chain. The characteristics of being able to spot the potential of upgrading to an altogether new value chain is likely to drive IGM chain upgrading; although it is assumed chain upgrading is unlikely to be observed in this study due to it being rarely associated with low-tech industries.

### ***Supplementing GVC with Contextual factors***

In addition, to complementing GVC theory with IB theories to explain upgrading patterns and prospects, GVC-researchers Humphrey and Schmitz (2002) suggested the importance of including local and national sources of innovation as factors that contribute to firm upgrading and are possible alternate sources for acquiring knowledge besides through the lead firm. Based on this recommendation for future research, one of the central analytical tasks of this dissertation is to explore the role of alternative, contextual factors, other than buyers, in the upgrading and internationalisation prospects of IGMs. Thus factors such as domestic market, infrastructure and international competitors, amongst others, become important alternative, exogenous factors that may drive IGMs' upgrading choices. These factors could be located nationally, locally, or indeed internationally. For example, competition from other producer countries could drive manufacturers to upgrade in particular areas as opposed to others, based on what they feel is

necessary to bring them to par with their competitors or surpass other competitors. Non-buyer-related factors also may impact firm upgrading such as domestic, industry-related factors or industry support institutions. In particular training centres and academic institutes that nurture and foster particular garment industry related skills sets provide firms with support for their upgrading in the form of an able and well-trained workforce allowing them to perform in new areas.

### **3.2.3 Overview**

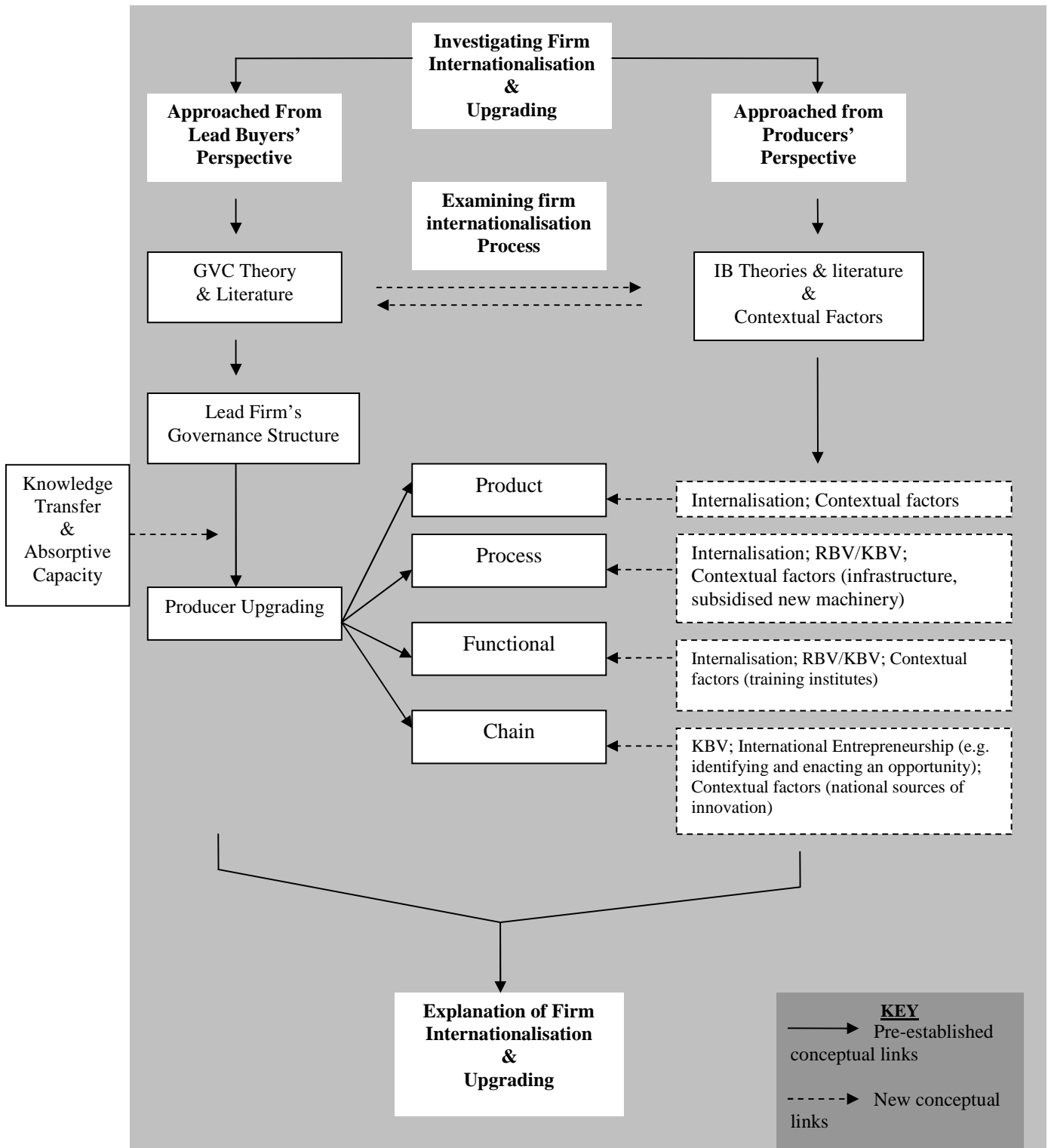
Overall, it seems in many ways GVC could be myopic or narrow in its understanding of firm internationalisation and upgrading, sacrificing breadth of explanation for depth, or possibly taking into account a single time frame through which firms internationalise whilst disregarding the more dynamic, process based views of internationalisation explained by IB theory. Thus to complement GVC concepts with those from IB theories and literature, and to some extent vice versa is important if a comprehensive understanding of the internationalisation processes and upgrading activities is to be achieved. These preliminary linkages established are presented in a proposed conceptual framework presented in the ensuing section.

## **3.3 Proposed Conceptual Framework**

A conceptual framework is developed to guide the present study and is illustrated in Figure 10. The framework depicts the links and relationships established and discussed in the above sections regarding the merging of theories and concepts from IB with GVC to achieve deeper and more nuanced understanding of the internationalisation and upgrading processes and activities of producers from developing economies such as IGMs studied in this research.

It has been noted that both approaches, GVC and IB, differ in their focus when studying the subject of internationalisation in particular. The conceptual framework presented in Figure 10 enables the researcher to approach the subject of firm internationalisation and upgrading from both a Global Value Chain (GVC) perspective and an International Business (IB) perspective.

Figure 10 Proposed conceptual framework



Source: Author's Own



The top half of framework starts by presenting on left hand side the GVC perspective of firm internationalisation and on right hand side of the IB perspective, and the linkages between the two approaches are made using the two-way dotted arrows. What follows in the second half of the framework is the depiction of theoretical linkages to be examined between GVC and IB concerning the upgrading activities of the internationalising firm. The solid black arrows within the framework signify pre-established links as defined by extant literature, whilst the dotted arrows are the new linkages established as a result of combining the two fields of study. These newly established links will be explored further in ensuing chapters and be tested for their applicability to the study at hand. It is expected employing such a combined approach will allow the subject matter to be studied from a more comprehensive and inclusive analytical lens than before. Thus the conceptual framework as a whole, which includes pre-established links and the newly established links, is the proposed guide to this study.

### **3.4 Conclusion**

This chapter presents a conceptual framework that aims to further the understanding of firm internationalisation and upgrading. GVC is a widely employed theory in development study research and therefore enhancing its analytical capabilities hold important implications. The proposed conceptual framework in Figure 10 combines GVC concepts and IB concepts with the aim of strengthening GVC's analytical and explanatory value. Furthermore, it is expected that the proposed framework will enable a dialogue between this chapter and the discussion chapter to be established, wherein the proposed conceptual framework's accuracy and robustness will be discussed and elaborated upon and the preliminary assumptions upon which the framework is based tested for their accuracy and adjusted if deemed necessary

## **Chapter 4 Methodology**

### **4.1 Introduction**

This present research derives from various methodological approaches that have been adopted as a consequence of the main research questions being addressed. These research questions have in part also determined the philosophical position from which the study is approached and designed. This chapter starts by presenting the various philosophical approaches that could have been employed in researching the topic at hand and discusses their appropriateness. The chapter goes on to highlight the methodological approach adopted by this research. The discussion then proceeds onto describing, examining, and justifying the research method adopted. This is followed by presenting profiles of case companies that constitute the main participants and phenomena under study. The chapter concludes with a summary of issues discussed in this chapter.

### **4.2 Philosophical Underpinning of Research Design**

It is important to consider the philosophical choices that underlie any research undertaken as these determine the research design (i.e., what variety of evidence is necessary to collect, what sources should be consulted as well as what quantity of evidence will suffice to help adequately address and answer the main research questions posed). The main philosophical approaches can be broadly categorised under two headings, phenomenology (inductive approach) and positivism (deductive approach). Both approaches are used by researchers to justify their choice of research design. The approaches differ in terms of the techniques they use to carry out research, and are often considered as standpoints from opposing camps, with the merits of adopting one philosophical standpoint over the other often being the topic of debate. Our concern here is not to take sides in any such debate, but is rather of a more practical nature: We wish to determine which approach is the most suitable for this research, given the nature of the alternative approaches and the research questions we seek to answer.

#### **4.2.1 Positivism**

Easterby-Smith et al. (2000: 22) define positivism as follows: “The key idea of positivism is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation reflection or intuition.”

The very nature of the positivist paradigm means proponents must follow a ‘hypothetico-deductive’ method of undertaking the study. This is where “science proceeds through a process of hypothesising fundamental laws and then deducing what kinds of observations will demonstrate the truth or falsity of these hypotheses” (Ibid: 23). That is, when adopting a positivist approach to research design, a classical scientific method is followed, whereby the aim is to generalise through discovery of patterns. The steps involve testing pre-formulated assumptions of an ‘ordered’ world, by collecting objective data, analysing it for ‘objective’ observations and from this ascertaining regularities which can produce general laws where the “plausibility of any general law is proportional to the number of instances of it that have been observed” (Harre 1972: 42, as cited in Blaikie (2003: 103).

A general sequence of steps is undertaken whereby hypothesis are formulated, after which observations are made within the field of study, and testing is carried out on the observations which ultimately leads to the confirmation or rejection of the prior hypothesis (Easterby-Smith et al. 2000:29).

#### **4.2.2 Phenomenology**

In contrast to the positivist, deductive, approach, we can consider the phenomenological, inductive, approach to research. In a phenomenological approach:

The world and ‘reality’ are not objective and exterior, but that they are socially constructed and given meaning by people...Hence the task of a social scientist should not be to gather facts and measure how often certain patterns occur [as is more commonly associated with positivist research], but instead to appreciate the different constructions and meanings people place upon their experiences and try to explain these differences in experiences...[that is]...Human action arises from the sense that people make of different situations, rather than as a direct response from external stimuli.

*Easterby-Smith et al. (2000: 24)*

In the case of this study, such an approach would seek to describe the world view of the Indian garment manufacturer. In comparison, a positivist approach would start with assumptions of the observed world and test the response of Indian garment manufacturers to these ‘objective’ observations. Table 8 highlights the main differences between the two philosophical approaches.

Table 8 Phenomenology Vs. Positivist approach

<b>The Phenomenological Paradigm (Inductive)</b>	<b>The Positivist Paradigm (Deductive)</b>
<p><b><i>Underlying Principles</i></b></p> <ul style="list-style-type: none"> <li>▪ The world is socially constructed</li> <li>▪ The researcher is part of research process</li> <li>▪ Science is value-driven</li> </ul>	<p><b><i>Underlying Principles</i></b></p> <ul style="list-style-type: none"> <li>▪ The world is external</li> <li>▪ The researcher is independent of research</li> <li>▪ Science is value-free</li> </ul>
<p><b><i>Research should</i></b></p> <ul style="list-style-type: none"> <li>▪ Focus on meanings human attach to situations and a close understanding of the research context</li> <li>▪ Look at totality</li> <li>▪ Try to understand phenomena</li> <li>▪ Formulate/develop ideas and theories</li> </ul>	<p><b><i>Research should</i></b></p> <ul style="list-style-type: none"> <li>▪ Focus on facts</li> <li>▪ Look at causality of relationships, which is based on scientific principles, testing and fact</li> <li>▪ Try to measure phenomena</li> <li>▪ -Formulate/develop testable hypothesis</li> </ul>
<p><b><i>Preferred research methods &amp; Design</i></b></p> <ul style="list-style-type: none"> <li>▪ Using multiple perspectives</li> <li>▪ Taking small samples</li> <li>▪ Qualitative, subjective and Inductive</li> </ul>	<p><b><i>Preferred research methods &amp; Design</i></b></p> <ul style="list-style-type: none"> <li>▪ Using concepts</li> <li>▪ Taking large samples</li> <li>▪ Quantitative, objective and deductive</li> </ul>

*Source Adapted from Easterby-Smith et al. (2000)*

Whilst the two approaches described in Table 8 derive from distinct principles, for the purpose of this research a balanced view of the philosophical approaches and their application is taken. It can be argued that both philosophical approaches have their merits and the use of any particular one depends on which approach best enables one to adequately fulfil the aims and objective of the research questions posed at the outset of the study. This, in turn, depends on whether the research questions are exploratory by nature or whether they seek conclusive answers as a result of testing existing theory. The ensuing discussion justifies the particular approach taken in this research.

### **4.2.3 Philosophical underpinnings of this research: Phenomenology**

Phenomenology has played a crucial role in determining the design and execution of this study, as it seems the most appropriate approach to address the exploratory nature of the research questions posed. The exploratory nature of the research questions is evident from the formulation of the research questions which are ‘how’ and ‘why’ questions and essentially aim to investigate the international activities and upgrading patterns of Indian garment manufacturers, the key phenomenon under study.

An alternative approach to studying the topic at hand would have been to take a positivist, quantitative approach whereby the aim would be to quantify or measure IGM responses regarding their internationalisation and upgrading behaviour and patterns. That is, the purpose would be to discern ‘how many’ or ‘how often’ a particular pattern, behaviour or activity occurs. With regard to this study possible lines of enquiry may include discerning the number of IGMs that follow a more traditional staged approach to internationalisation compared to other types of internationalisation trajectories. Furthermore, a quantitative approach requires a survey of a considerably large number of representative sample firms to be undertaken (most commonly attempting to contact target companies over the telephone or carrying out a postal survey). The use of structured questionnaires incorporating mainly close-ended questions, that is, questions with set responses, would constitute the interview schedule. Any data collected would help to identify recurrent patterns and ascertain any prior hypothesis regarding the internationalisation and upgrading activities of IGMs. However, there are limitations at both a theoretical level as well as practical levels for undertaking the present research in this manner.

On a theoretical level undertaking a pure positivist, quantitative-based approach leads to descriptive accounts and prescriptive outcomes. It constrains the responses to questions asked; preventing the researcher from building a rich picture which would capture the underlying meanings and structures of the phenomena under study. To build such a picture it is important that the researcher is able to engage with the phenomena and ask them about their experiences and encounters, and be able to further probe these where deemed necessary; this is not possible using a pure positivist, quantitative approach. Furthermore, adopting a quantitative approach would be inappropriate for this study as its aim is not to be lead by theory whereby a specific theory from the outset is employed to be then tested for its relevance and fit to the case of Indian garment manufacturer. Instead a background of key theories is used as a loose guiding

framework to enable the researcher to explore the circumstances and experiences of Indian garment manufacturers with regards to their internationalisation and upgrading activities. For example, although it may be ascertained that the IGMs follows a particular process of internationalisation using a quantitative approach it would be difficult to adequately probe the case companies regarding their choices.

On a practical level the ability to access a large quantity of a representative sample of IGMs proved difficult, especially when using a postal survey. Databases generated by internet trade sites were used to choose and contact potential respondents for the survey. However, these initial attempts to contact IGMs by sending introductory emails proved futile with a nil response rate. In addition, most IGMs interviewed in this study don't have a functioning web-site or internet presence and thus employing such a method would have not enabled a representative data sample to be collected. In discussing what would be the best approach to accessing IGMs a known contact advised conducting face-to-face interviews would achieve a better response from IGMs than attempting to access them impersonally, as people would be less suspicious and more willing to discuss their company issues (as more often than not IGMs are family held companies) if the researcher was referred and thus deemed trustworthy.

Thus, this research adopts a qualitative, phenomenological (interpretative) approach. The interpretive variant of phenomenology is concerned with subjective, qualitative phenomena that are rich in context, and aims to understand the totality of what is happening in a given situation (Godfrey & Hill, 2003; Saunders et al., 2003). This is done by gaining deeper meanings of the subject matter rather than reducing the phenomenon into smaller simpler elements in order to be able to subsequently formulate generalisations and regularities.

A further essential element of the phenomenological-interpretive approach is its acceptance of the intrinsic role played by the researcher, who tends as a result of the applied approach to take a subjective insider's view of the phenomenon under study, adopting an empathetic stance to a certain degree. It has been argued that this subjectivity is a weakness, and that the phenomenological-interpretive approach suffers from a lack of generalisability of its research outcomes. This follows from the use of qualitative research techniques, such as case studies. However, this argument misses the point by ignoring the very nature of qualitative research, in which the aim is not to gather data on the frequency of results but to gain deep insights through

examining individuals' experiences and their understanding of phenomena in which they participate. Maanen's (1983) definition of qualitative research methods illustrates precisely this point. He suggests that qualitative research is "an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomenon in the social world" (Van Maanen, 1983: 9 as quoted in Easterby-Smith, et al. 2002: 71).

Blaikie (2003: 64) suggests that "while it is necessary to be as clear as possible about the scope and direction of the research at the beginning, what the researcher learns in the course of undertaking the research may necessitate some changes. This is simply the nature of research in any discipline." Adopting a flexible research approach is essential for this research, since, due to its exploratory nature, key themes are expected to emerge during the course of the research, re-shaping and re-defining earlier research questions. Therefore, it is important that the research design employed allows for flexibility and change during the course of the research process itself.

### **4.3 Research methodology**

The present research concerns the nature of the internationalisation process and upgrading prospects of Indian Garment Manufacturers (IGMs). Our discussion of the research method used in pursuing this inquiry will begin by establishing the research approach and design, describing and justifying the way in which the research was undertaken using case studies as well as how companies were selected and accessed, and what types of data were collected. Issues concerning the validation and reliability of data are also discussed, especially when undertaking qualitative approach to research. The ensuing section goes onto discuss by what process the data collected was analysed.

#### **4.3.1 Research approach & design**

##### ***Qualitative approach using case study method***

The aim of qualitative research is to gain deep insights through examining individuals' understanding of the phenomena as well as opinions and experiences through which rich insights

can be developed. Van Maanen's (1983) definition of qualitative research methods precisely illustrates this point. He suggests that qualitative research is:

An array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomenon in the social world.

**Van Maanen, (1983:9, as quoted in Easterby-Smith, et al., 2002: 71)**

Therefore, a qualitative approach is most suited to the purposes of this study, where the research aim is of an exploratory nature, investigating the emergence of alternative, possibly unexpected, themes, or developments.

This study therefore adopts a case study method to researching Indian garment manufacturers and their internationalisation and upgrading activities. The internationalising Indian Garment Manufacturer (IGM) is the principal phenomenon under study. When the boundary between the phenomenon studied and the context within which it is being analysed is unclear, Yin (2003) suggests case study research is a good technique to use as it allows the researcher to investigate a contemporary phenomenon within its real life context. Furthermore, Rose (1991) suggests case studies are appropriate to use when the research concerns questions about how and why, as is the case in this study. Case studies therefore help us first to identify and then to understand the more complex issues that underlie phenomena, providing an in-depth view of a specific situation or context rather than a statistical overview or cross-section of a large category of subjects.

Such an approach suits this study, as the main aims of the study are to explore current and emergent issues. The study also hopes to understand existent theory from the perspective of the internationalising IGM and if necessary build on those theories, in an effort to provide deep insights into the various factors that affect a firm's decision to participate in international trade and upgrade. The opportunity to present an in-depth portrait of a company is particularly useful when that company presents itself as a special case to be studied, for example, due to the distinctive nature of its activities, which may be considered as unusual or unique in comparison with activity observed in other studied firms. As highlighted by Saunders et al. (2003), the key advantage of employing an interpretive, case study, based approach is that it recognises the



individuality and intricacies that are inherent characteristic of individual business situations, and allows these complexities to be drawn out and explored further.

In addition, comparisons within and across case studies can be made here, as we have multiple cases (23 companies). Various researchers (Yin, 2003; Pettigrew, 1992; Eisenhardt, 1989) propose that multiple comparative case studies enable the identification of patterns and general explanations, which would not be possible from, for example, a single, holistic, case study. Huberman and Miles (1994) and Eisenhardt (1989) further suggest that through this identification and observation of cross-case patterns, researchers are able to derive unique findings and explanation, which can ultimately result in contributing to theory building or offer deeper theoretical insights. It should be acknowledged that any patterns observed in this study are of limited generalisability. Therefore, generalisations cannot extend to a population as a whole but instead can be used in developing theoretical propositions, as suggested by Yin (2003).

#### ***Company selection and access***

The research was conducted between October 2007 and June 2008 in the city of Mumbai (Bombay), State of Maharashtra, in India. Mumbai is one of the main exporting hubs for garments in India and thus constitutes an important and very relevant region in which to undertake this study.

Interviews with IGMs were the primary form of obtaining data. A summary table of key interviews is presented in Table 9. From the companies accessed (in total 31) 23 case companies were selected for interview. Access to firms in the garment-manufacturing sector was gained through an initial process of networking, and snowball sampling, rather than derived from a formal database or an official listing of companies. Snowball sampling is a technique which relies on social networks, interpersonal relations and referrals to access research participants and build a research sample. Using an established set of participants (initially contacted through interpersonal networks or referrals) new participants are recruited through contacting the existing participant's acquaintances or extended networks. Thus the group of research participants grows much like a rolling snowball gathers snow and grows (Salganik, and Heckathorn, 2004). This method of contacting garment manufacturers was found to be valuable and served two purposes. Companies were willing, due to the personal networks and contacts to

give a valuable amount of their time for interview purposes (an average of 1 to 1.5 hours per company founder and additional hours with key managers, in some cases where appropriate, or when given access). Secondly, once again due to networks, it was possible in all cases to meet with the founder and main decision makers and managers of the companies from the outset of the study. This was important as they held many of the key insights of how the company had evolved to its current stage of development, which allowed for rich data to be collected. Meeting with the founder also enabled us to identify with precision the influence of a key factor, the entrepreneur him -or herself- on the internationalisation processes and activities of the individual firms.

Table 9 Summary of key interviews

<b>Key Interviews Conducted</b>	
<b>1.</b>	Founder, main manager of each case company, Mumbai
<b>2.</b>	Manager of design studios (for companies with a design studio), Mumbai, Bangalore
<b>3.</b>	Manager of Production department (where possible), Mumbai
<b>4.</b>	Academics and Head Librarian at NIFT, Mumbai
<b>5.</b>	Government official in Ministry of Textiles, Delhi 9
<b>6.</b>	Director of CMAI, Mumbai
<b>7.</b>	Director of APEC, Mumbai, Delhi
<b>8.</b>	Manager of ATDC, Mumbai
<b>9.</b>	Editor of Apparel magazine, Delhi

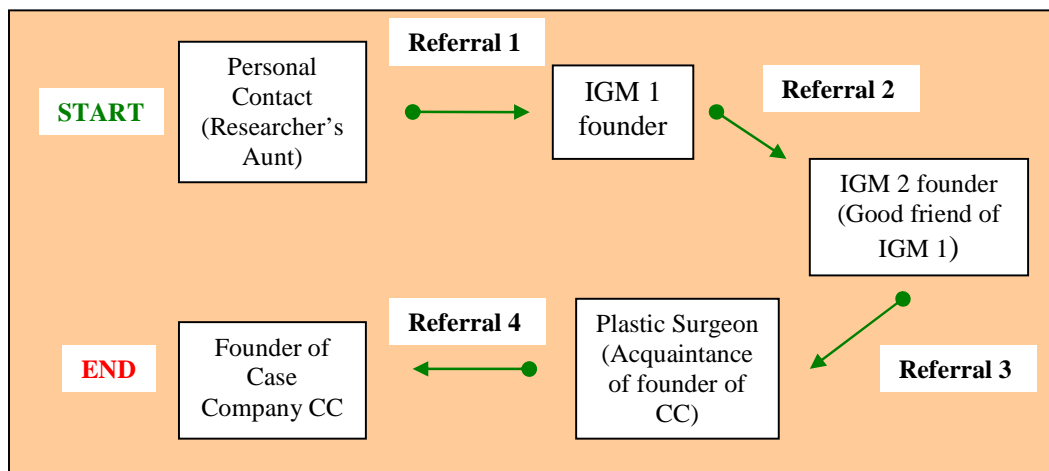
*Source: Author's Own*

However, there were some difficulties in using a network-referral or the snow ball sampling technique. As the referral network became more distant from the initial point of contact their seemed to be a decline in the response interest. In effect the snow ball melted as it travelled a greater distance from the initial contact point. The impression was one of a decreasing sense of obligation to participate as the relationship within the network became weaker and more diluted. For example, the researcher was keen to interview the founder/managing director of case company CC who at the time was ranked the largest garment manufacturing company in India. In talking with an IGM, referred to the researcher through a personal contact, the IGM's manager revealed his very good friend who is also a garment manufacturer knew someone who

in turn knew the founder of case company CC. Thus through the process of snowballing the researcher was referred onto another company whose owner referred her to a good friend (a plastic surgeon) of his who knew the founder of CC. Thus from the initial personal contact there were four levels of referrals before the researcher was able to secure a meeting with the founder of case company CC; Figure 11 illustrates the various referrals or links made by the researcher to secure the interview with case company CC.

However, upon meeting the founder of CC it became evident of his unwilling to part with much time as he was reluctant to give more than 10 minutes to discuss any issues. The researcher managed to ask the some pertinent questions (those that dealt with the company’s initial foray into international markets) and persuaded the founder to allow the researcher to interview a lower level manager within the company.

Figure 11 Network of referrals



Source: Author's Own

In other instances where the network of referrals where also many between the initial contact and target company the response rate once again was poor (either the researcher was given inadequate time or the case company withdrew their initial promise of meeting through cancelling meetings or never committing to an agreeable time and date despite several attempts by the researcher to call) resulting in the case companies not being included in the study. There

where five occasions whereby the researcher met with weak responses as a result of using a number of networked referrals, indicating that the successful access to case companies and interviews rich in their quality of content was achieved when the network of referrals were either direct or kept short, and where a sense of obligation was felt by the respondent.

The sample collected in this manner seems likely to be fairly representative, as the Indian garment industry is known to be highly fragmented, with a virtual absence of large companies, and indeed most of the companies studied here are, small, and medium, sized enterprises (SMEs). These interviews were supplemented by interviews with government officials, industry leaders and practitioners, representatives of industry associations, and academic experts on the garment industry. This allowed various different views and opinions to be collated regarding the issues under study.

The single most important requirement for a company to be able to participate in the study was that at some point of its existence or of the founder's dealings in the garment business, there was involvement in the exporting of garments. Researchers such as Ghauri et al. (2002) support this selection criterion when carrying out multiple case study research. They suggest that case study subjects should be selected to serve a particular purpose; in this study, the criterion was selected in order to assure the relevance of the participating firm to a study of internationalisation.

This led to a range of companies, all with varied experiences and background, who were involved in exporting garments in some way or at some point. The typical company studied here was still involved in exports, whereas some had exported at some point but for various reasons had ceased export activity. Still others export only intermittently, and finally one company had left the manufacturing and export of garments altogether in order to devote itself to services in an area related to garment exports.

#### **4.3.2 Data collection process**

Three various sources of data were used. Primary data were collected through semi-structured interviews (an example of the interview schedules is provided in Appendix A and B), while secondary data came from documentation gathered during fieldwork. Additionally, data were gathered and confirmed through direct observation. The purpose of using multiple sources of

data was triangulation (see section 4.3.3, Table 12). We now turn to a discussion of these three data collection approaches.

***Primary data collection: Qualitative interviews***

The primary data collection method was through interviews, using a semi-structured format. Garment manufacturers as well as relevant industry, government, media and academic personnel were interviewed. One view suggests that the primary purpose of interviewing is “to understand the meanings interviewees attach to issues and situations in context that are not structured in advance by researcher’s assumptions” (Easterby-Smith, 2002: 73). However, this assumes an approach to interviews that is purely unstructured. A more practical approach to interviews is the semi-structured approach to interviewing, which assumes there has to be a certain degree of compromise where the researcher must determine the degree of structure that s/he will incorporate into the interviews. Jones (1985: 47 as quoted in Easterby-Smith, 2002: 74) advocates this view and highlights “there is no such thing as pre-supposition-less research. In preparing for interviews researchers will have, and should have, some broad questions in mind, and the more interviews they do and the more patterns they see in the data, the more likely they are to use this grounded understanding to want to explore in certain directions rather than others.” Thus, the semi-structured approach to interviewing the above participants is adopted in this study. A loose guiding framework of interview questions was compiled from the outset, but with the knowledge that the question served only as a guide and that there was enough flexibility built in through incorporating open-ended questions to allow various emergent themes or discussion avenues to be followed when necessary. Thus, as Miles et al. (1983: 119) suggests, a “rough working frame” was used to minimise the risk of obtaining “an incoherent, bulky, irrelevant, meaningless set of observations ... which no one can (or even wants to) make sense of.”

The way in which questions are composed for interview purposes is also an important consideration. Question construction can influence the outcome of respondents’ answers and is likely to suffer from interview bias, in turn affecting the objectivity with which the study is carried out. To avoid or reduce the interviewer bias, this study uses specific qualitative questioning techniques, as advocated by Rubin and Rubin (1995), when constructing and posing questions. The three types of qualitative questions are: main questions (mostly open-ended),

probes, and follow-up questions. Table 10 summarises the various distinctions between the three types of questions.

Table 10 Typology of qualitative questions

	<b>Question Type</b>	<b>Distinguishing Features of Question Types</b>	<b>Example from interview schedule</b>
1	<b>Main Questions</b>	<i>The ‘main questions’ provide the skeletal structure of the interview in terms of the overarching themes and issues that will be covered during the course of an interview. In general, the researcher prepares the ‘main questions’ before conducting an interview.</i>	<i>-Does your company participate in the designing of the garment?</i>
2	<b>Probe Questions</b>	<i>‘Probe questions’ are used during the process of conducting the actual interview and supplement the main questions by helping to clarify or further elaborate on respondents’ answers to main questions. Such questions help to draw out deeper meanings and understanding of the key issues being explored, and may also help reveal new themes not already incorporated in the set of main questions.</i>	<i>-If yes, how does the design process work? -If not, why not? -What factors prevent you from designing? -Does the buyer in any way prevent you from designing?</i>
3	<b>Follow-up Questions</b>	<i>“Follow-up questions” help to pursue any new themes or issues raised by respondents during the probing questions or even during their response to main questions. Such follow-up questions are generally posed in relation to issues that were unexpected by the researcher, but nevertheless could constitute an important development in helping to explore the central themes and concepts under examination.</i>	<i>-You suggest it is not the buyer that hinders you from designing but that it is your own choice not to design; could you please explain why you are reluctant to participate in the design function?</i>

Source: *Compiled from Rubin and Rubin (1995)*

An open-ended questioning technique was employed, allowing the researcher to “stimulate the informant into talking freely about the particular area under discussion” (Arksey and Knight, 1999: 92). An example of an open-ended question used in the interview schedule in Appendix A is “How and why did you get into the business you are in currently?” This made an exploratory study possible, as the researcher was able to examine issues through more deep and insightful discussions with participants than would have been possible given a closed questioning

technique, in which responses are restricted to a pre-defined set of answers. An example of a closed questioning technique used in the interview schedule presented in Appendix B is:

“What is the main business activity(s) of your company in India? (*can tick more than one*)

- Production/manufacturing
- Distribution/ sales & Marketing
- Design
- Research & development
- Financial services
- Other services
- Head quarter function
- Other (*please specify*).....”

This question has a pre-defined set of choices and does not allow for the respondent to supplement their answer with additional information, for example with regards to why they chose the particular business activity over a range of alternative options.

***Secondary data collection: Documentary data***

To further support and validate the primary data collected through interviews multiple other sources of secondary data were relied upon. Secondary sources of data included company, industry, and government web sites, various trade and industry magazines and reports, and newspaper and industry news reports. Table 11 summarises these various types of secondary sources collected during fieldwork. Yin (2003), Ghauri and Gronhaug. (2002), and Patton (2002), are a few researchers who have specifically expressed support for the use of multiple sources of data as evidence to supplement and further validate the case study based research.

***Direct observation***

During the process of carrying out fieldwork, visits to various factory sites or offices played an important role in building a visual picture of the company under study. Such observations of company offices and factory sites also served the purpose of verifying interviewee assertions, as well as in some cases raising further questions that required elaboration.

Table 11 Secondary data sources used

Source	Name of Organization	Data Type Collected
<i>Company Web Sites</i>	<ul style="list-style-type: none"> <li>➤ Participating Companies Web sites; depending on whether the company supported a web site</li> </ul>	All publicly available data on the individual case companies were collected. These included: company profiles and reports, newspaper clippings, photographs, video clips, magazine articles, buyer reviews
<i>Government and Industry Web Sites</i>	<ul style="list-style-type: none"> <li>➤ Ministry of Textiles (Delhi)</li> <li>➤ AEPC (Apparel Export Promotion Council) Bombay and Delhi</li> <li>➤ TEXPROCIL (Textile Export Promotion Council), Mumbai- Head Office</li> <li>➤ CMAI (Clothing Manufacturing Association of India), Mumbai</li> </ul>	Various country and sector reports, statistics, and industry magazines.
<i>Visit to a National Garment Fair</i>	<ul style="list-style-type: none"> <li>➤ CMAI (Mumbai, 48th National Garment Fair, 25th July, 2007)</li> </ul>	<ul style="list-style-type: none"> <li>-Browsed amongst the different company stalls, which featured their products as well as brochures, company profiles.</li> <li>-Examined the range and quality of product categories offered at fair, including ready-made apparel, accessories, fabrics, tags labels etc.</li> <li>-Talked with various company representatives heading the stalls.</li> <li>-General observations</li> </ul>
<i>Visit to an SEZ</i>	<ul style="list-style-type: none"> <li>➤ SEEPZ (Santacruz Electronics Export Processing Zone), Mumbai</li> </ul>	Although SEEPZ primarily houses software and jewellery manufacturers, some garment manufacturers had their office located in SEEPZ
<i>Academic Institutions</i>	<ul style="list-style-type: none"> <li>➤ NIFT (National Institute of Fashion Technology)</li> <li>➤ SASMIRA (The Synthetic and Art Mills' Research Association)</li> </ul>	<ul style="list-style-type: none"> <li>-Used library resources</li> <li>-Gathered relevant articles from topical journals and publications</li> </ul>
<i>Newspapers</i>	<ul style="list-style-type: none"> <li>➤ Main Stream Newspapers: <ul style="list-style-type: none"> <li>-Times of India</li> <li>-Financial Times of India</li> </ul> </li> <li>➤ Online Industry Newspapers: <ul style="list-style-type: none"> <li>-Fibre-2-Fashion</li> <li>-Just-style</li> <li>-The Financial Express</li> <li>-The Hindu Business Line</li> </ul> </li> </ul>	Various relevant articles

Source: Author's own



Overall, one of the biggest strengths (Easterby-Smith, et al. 2000) in having carried out the study as described above, using a qualitative approach, is that during the course of the fieldwork it has enabled adjustments to bring in new issues and ideas as they emerged. This in turn has led to another important strength of the research, in that it has allowed findings to contribute to the evolution of possible new concepts or at least to augment or modify old theories.

### **4.3.3 Enhancing validity & reliability of data**

Establishing the validity of qualitative research can be problematic (Zalan and Lewis, 2004). Easterby-Smith (2002: 40) argue that as long as “the researcher is committed to providing a faithful description of others’ understanding and perceptions, then ideas such as validity and reliability can provide a very useful discipline.” The methods for ensuring the validity of this research will be discussed below.

#### ***Pilot Study***

Interview schedules was the main research instrument used to collect primary data in this study, thus it was important from the outset of the study that the reliability and validity of the interview schedules was pre-tested (Baker, 1994). Thus the questionnaire was tried out on five companies, which allowed various changes and alternations to be made to the questions. The pilot study helped improve the design of the questionnaire as well as highlighted certain areas of ambiguity within the questioning as well as indicating terminology used within the questions which may have required further explanation or elaboration in terms of an example to help the respondent answer the question posed. The pilot study also helped to identify areas that were not relevant to the respondents. In particular the concept of business houses, which initially constituted an important part of the interview schedule, but resulted in being irrelevant in the context as a result of conducting a pilot study of sample respondents. Thus this section of questions was eliminated and allowed the interviewer to save on valuable time and the respondent unnecessary questioning. In a similar fashion it became obvious from the pilot study that questioning on the design activity needed to be more elaborate as despite being informed from the literature review that design was *not* an important or even viable activity undertaken by local manufacturers.

The pilot study although indicated and highlighted many important prior insights to the study to be undertaken it was not possible to foresee all problems or issues that may occur and thus

building in a margin of flexibility was necessary during the course of conducting the rest of the interviews, where special cases were accommodated for and where a recurrent theme cropped up, not highlighted by the pilot study, it was incorporated along the way. Also to ensure consistency if a theme seemed important later on during the course of the study, where earlier respondents may not have been questioned regarding this theme, the researcher contacted former respondents with telephone calls to ask for the required information where possible. Furthermore, follow-up calls prior to listening to the tape recordings were made where answers were deemed ambiguous or unclear and would benefit from further clarification or elaboration.

### ***Researcher participation***

Ghuri and Gronhaug (2002) indicate the researcher needs to understand and digest the information collected, as well as to interpret what the interviewee means when discussing a certain topical theme. The question of validity here means that the researcher needs to ensure the correctness of her interpretations of what is said by the participant. Thus, the researcher's listening and interpreting skills are important. The use of a tape recording device in this research has been helpful in this regard, by allowing the researcher to reflect on conversations rather than depend solely on written notes taken during the interviews. The fact that English was a language spoken fluently by both the interviewees and the researcher also contributed significantly to the validity of the interviewing process itself, except for in one case whereby translation from Hindi to English was necessary. Moreover, the fact that the researcher is ethnically Indian ensured a familiarity with the cultural context of the interviewees, allowing for ease of understanding of idioms and mannerisms in conversation that might otherwise have presented an obstacle to interpretation.

### ***Interview preparation***

To enhance the researcher's listening and interpretation abilities, prior preparation for interviews is important. This frees the researcher to concentrate and engage during the actual interview, as well as enabling the interviewer to identify new developments during the course of the interview. In addition, the preparatory stages that come before conducting the interview allow background research on the company to be carried out. This enables greater focus during interviewing and cuts out unnecessary questioning and wastage of participant time, which is often limited. Furthermore, it helps verify previously collected information where this is deemed necessary by the researcher. Background information on case companies was gathered using a

range of sources, including company web sites, company reports, profiles, and brochures. In some cases, companies had an archive of newspaper clippings or media interviews, which could be used as secondary sources of information. More often, however, company web sites and profiles were the most common form of information provided, proving to be valuable and insightful sources. Such background preparation often also allowed the researcher to follow up interesting leads and developments during the actual interview.

However, in some cases, relying on company web sites to gain a prior insight into company operations was not possible, as some companies did not have functioning web sites. In such cases, preparing for interviews was difficult, and it was during the actual course of the interview that information could be collected and leads followed as they came up in conversation.

### ***Use of technology***

Using a recording device, wherever the participant gave consent, was also important in correctly interpreting and validating data. The researcher could focus on the interview and follow up leads, with minimal reliance on writing notes during interviews. Therefore, during the analysis phase the researcher could easily reflect on what was being said, as a thorough set of transcripts allowed the researcher to clearly recall discussions and conversations. Any leads that may have developed as a result of reflecting on transcription could be then followed up for clarification or further elaboration via a telephone call to participants.

### ***Interview techniques***

To enhance the reliability of the accounts gathered from interviewees Burgess (1982: 107) suggests that it is important to get “vivid and accurate inclusive accounts that are based on personal experience.” Therefore, wherever possible the interviewer was encouraged to express his or her views on, and experiences of, the situation being discussed, and further probed when necessary regarding those experiences. Table 10 presents various question types that help unearth insightful accounts of experiences.

### ***Triangulation***

Finally, to further enhance the reliability and validity of data collected and their interpretation the technique of triangulation was employed in this study. Triangulation is a procedure used for crosschecking data. It does this, for example, by combining various research methods or employing several kinds of data to strengthen the insights gathered on the theme or issues under study. This helps improve and enhance the validity of the results collected. Denzin (1978)

identifies four variations of the triangulation technique: data, investigator, theory, and methodological triangulation. The various triangulation methods and the distinctions between the methods are summarised in Table 12.

Table 12 Triangulation methods

	<b>Variations in Triangulation Methods</b>	<b>Distinctions between Methods</b>
<b><i>Triangulation 1</i></b>	<i>Data Triangulation</i>	Here different sources of data are used to collate and validate the phenomena being researched.
<b><i>Triangulation 2</i></b>	<i>Investigator Triangulation</i>	This method uses different investigators who individually collect and interpret data for a given study; this helps validate findings, as different researchers will have varied perceptions and interpretations of the studied phenomenon.
<b><i>Triangulation 3</i></b>	<i>Theory Triangulation</i>	This method involves the use of multiple theories to explicate and use multiple perspectives to understand the issues under examination.
<b><i>Triangulation 4</i></b>	<i>Methodological Triangulation</i>	Here the researchers employ a variety of research methods to collate and triangulate their findings.

*Source: Adapted from Denzin (1978)*

This research employed the first and third triangulation method. One example of ‘data triangulation’ used in this study, whereby data was collated using various sources, was when investigating the importance of foreign direct investment (FDI) or joint ventures (JVs) within the garment manufacturing industry in helping to boost the upgrading prospects of IGMs who could potentially benefit from knowledge imparted by the foreign firm. Through interviews with various IGMs it was suggested there was a lack of FDI within the garment sector; these suggestions were further confirmed by a consultancy report that indicated India to be a poor FDI recipient. The report conducted a sector analysis indicating the Textiles and garment sector to have the lowest share of FDI inflows compared to other manufacturing sectors within India; and any FDI that was measurable in this sector was attributed to the textiles industry rather than the garment industry. The researcher had a further opportunity to validate and question the findings on low FDI figures when interviewing a government minister responsible for the textiles and garment industry who confirmed low levels of FDI within the industry despite recent government efforts to adopt an open door policy towards FDI inflows. Thus using various

sources it was possible to validate and establish with reasonable assurance that FDI has not played an important role in enabling IGMs to upgrade their activities, unlike in the case of many Chinese garment manufacturers. Table 11 presented the various sources of secondary data obtained, which included industry and government reports as well as newspaper clippings, among others. However, interviews with various different bodies also enabled triangulation of the developments within the Indian garment industry and its impacts on the garment export sector. Table 13 presents the various interviews conducted with the various different bodies related to the garment industry.

Table 13 Summary of triangulated supplementary interviews

Interview Source	Interview Source	Data Collected
<b>Government Body</b>	<ul style="list-style-type: none"> <li>➤ Ministry of Textiles, Joint Secretary of Exports (Uydog Bhavan, Delhi)</li> </ul>	<i>Interview regarding the various developments in the Indian garment industry, the involvement of the ministry and its impact on the garment export sector.</i>
<b>Industry Body</b>	<ul style="list-style-type: none"> <li>➤ AEPC Heads (3 in total; 2 in Delhi and 1 in Mumbai)</li> <li>➤ CMAI Director (Mumbai)</li> <li>➤ TEXPROCIL Director (Mumbai)</li> </ul>	<i>Interviews regarding the role and function of their departments and its impact on the internationalisation efforts of IGMs.</i>
<b>Academic Body</b>	<ul style="list-style-type: none"> <li>➤ NIFT Professor of Business and Marketing (Mumbai)</li> <li>➤ NIFT Professor of Operations in Textiles and Garment (Mumbai)</li> <li>➤ NIFT Professor of Design (Mumbai)</li> <li>➤ NIFT Head Librarian (Mumbai)</li> </ul>	<i>Interview regarding developments in the Indian garment industry, the role of NIFT, and their opinions and perspectives on the developments of the Indian garment industry for the export sector.</i>
<b>Industry Journalism</b>	<ul style="list-style-type: none"> <li>➤ Editor and Journalist of Trade Magazine (Delhi)</li> </ul>	<i>Interview discussing new developments for the Indian Garment Export Sector.</i>

Source: Author's Own

The common underlying theme of these interviews was to discover the opinions of interviewees representing various relevant organisations concerning the issues affecting the Indian garment export sector and how their organisations influence these developments. Employing a common

theme enhanced the validity of the research, as it allowed for corroboration, comparison, crosschecking the various opinions, and further substantiated of claims made by IGMs. In addition, it provided a more complete picture of the phenomena being examined.

Furthermore, as established in Chapter Two of this thesis, various theoretical and conceptual perspectives have been employed in order to help examine the subject matter at hand. The use of these varying conceptual frameworks, which themselves derive from varying disciplines, enables varying perspectives to be applied in the study of internationalising Indian Garment Manufacturers, and thus can be interpreted as a method of triangulation – theory triangulation, as suggested in Table 12.

#### **4.3.4 Analysis of data**

Analysis is the process of reasoning in which one moves away from the pure descriptive account of the phenomena to explanations of what causes the phenomena to happen and/or behave the way they do. Miles and Huberman (1994: 90) use the term ‘analytical progression’ to label the process of moving through the various stages of answering questions of “what and how, to why ... [that is] what is going on and how things are proceeding ... as well as to understand and explain ... why things occur as they do.” Bernard (1988, as quoted in Miles and Huberman, 1994: 90) goes a step further in providing a helpful distinction between analysis and description. He defines description as “making complicated things understandable by reducing them to the component parts”; i.e. giving a clear account of what has happened and how, whilst analysis or explanation is “making complicated things understandable by showing how their component parts fit together according to some rules,” these rules being formulated in a theory or theories.

The efforts of academics to distinguish between description and explanation demonstrate the importance of not letting research consist of mere descriptive accounts of the phenomena being studied. Its task is to clarify the causes of, and relationships between, phenomena. Therefore, it is necessary to understand and choose an appropriate process of analytical abstraction, which allows us to tease out explanations from the individual case studies.

In this research, various companies have been interviewed and analysed, using studies of individual companies as well as comparisons across them, as advocated by Yin (2003) as well as Miles and Huberman (1994) amongst others. Individual case analysis was necessary when the

companies were deemed special cases of particular interest due to their unique characteristics. Cross-case analysis allowed for comparisons to be made and patterns identified, which in turn allows for the refinement and/or development of theory.

However, the actual process and method of analytical abstraction from individual case studies is important to understand, as this is what will allow the researcher to progress from a rich descriptive text, captured in transcripts, to insights and analysis of the text. Carney (1990) suggests three levels to analytical abstraction (displayed in Figure 12), which are adopted in the analysis process in this thesis. The application of each of the levels to this thesis is also displayed in Figure 12 and is discussed below:

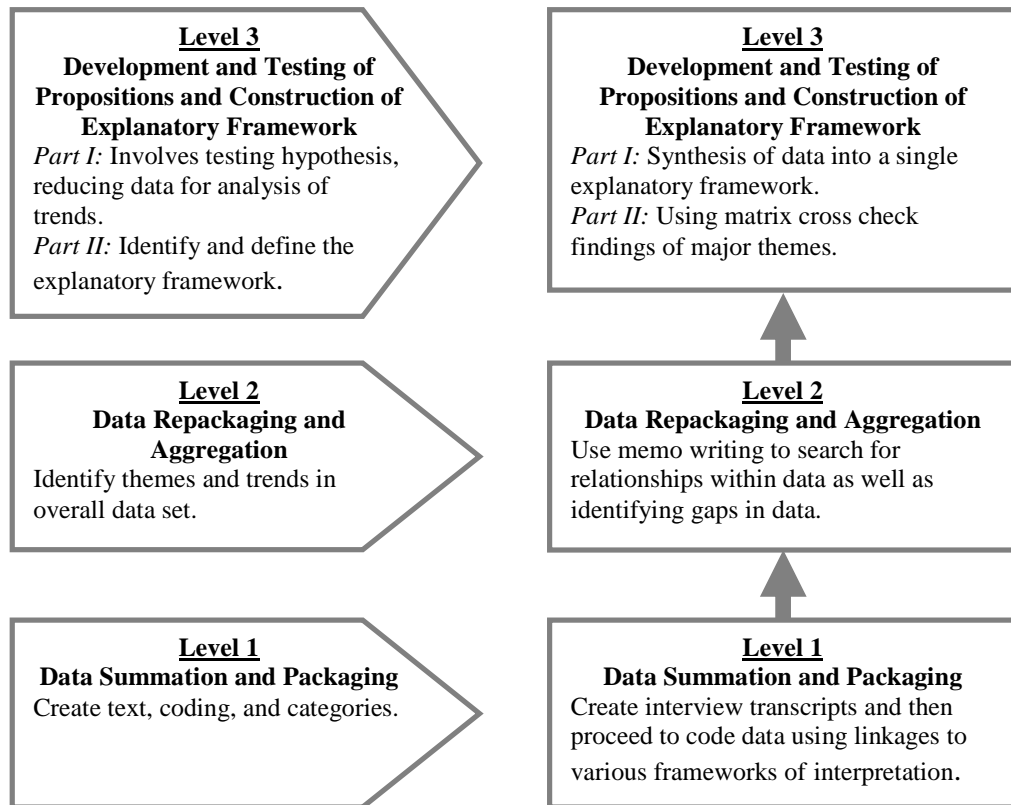
#### *Level 1*

The first level in Figure 12 involves taking account of gathered data, summarising and repackaging them in a format that will allow analysis to be carried out. In this study, each interview recording was transcribed (example of transcriptions available in Appendix C), then read and digested. The information collected was then inserted into a matrix in an Excel spreadsheet, used to map out the various companies onto the x-axis against various themes mapped onto the y-axis. These themes were based on questions initially constructed at the outset of the study as a means of loosely structuring and guiding the interviews. Direct quotes were selected and organised under the relevant matrix cells on the spreadsheet.

#### *Level 2*

At this stage, further repackaging of data is carried out in an aggregate manner so as to be able to explore emergent themes and identify these in the context of any patterns that emerge. Thus, any emergent themes from the data that did not fit into the pre-constructed themes resulted in alterations being made to the existent list of themes on the y-axis of the spreadsheet. For example, alterations could result in adding a new theme to the list or altering an existent theme in the list by re-naming it or at times breaking it down into two or more themes; some themes were altered by combining and collapsing them into a single theme heading.

Figure 12 Levels of analytical abstraction



Source: Adapted from Carney (1990)

*Memo writing*

A crucial activity during the abstraction process that helped to make decisions on theme development, augmentation or alternation was simultaneously keeping an account of any ideas that emerged whilst sifting through quotes. Miles and Huberman (1994: 72) and Glaser (1978) name this the technique of ‘memoing’. This is essentially “the theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding. ... It can be a sentence, a paragraph, or a few pages. ... It exhausts the analyst’s momentary ideation based on data with perhaps a little conceptual elaboration” (Glaser 1978: 83-4). Memo writing proved to be an important activity in the analysis process. It helped to understand the findings and interpret them into possible emergent themes. Bernard (2002: 469) further highlights the advantages of using the technique of memo writing in helping to build conceptual models. He suggests when “memoing you continually write down your thoughts about what you’re reading. These thoughts become information on which to develop theory.” He also suggests that it is an important way in



which to identify the “negative cases” (those that do not fit the emergent model taking shape). These negative cases help to “disconfirm parts of the model or suggest new connections that need to be made” (Bernard: 470). Finding cases that did not fit an emergent pattern was important to this study, and where applicable led to special individual case analysis.

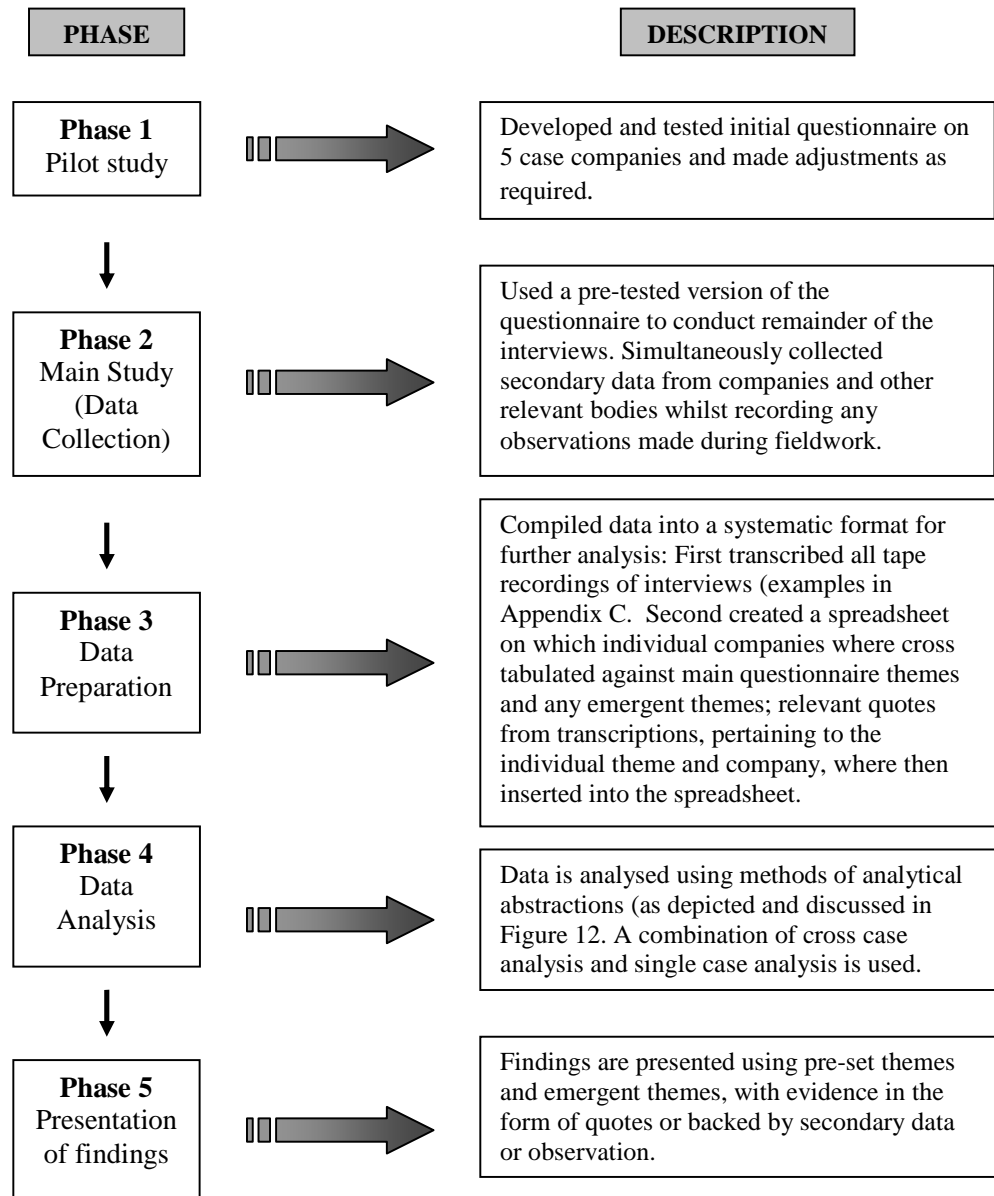
### *Level 3*

The third level requires the data collected to be synthesised using a single explanatory framework. It is important to note that this process is iterative; that is, the various steps need to be revisited, with constant crosschecking of the matrix to confirm the applicability of emergent themes and their validity.

#### **4.3.5 Summary of research methodology**

Thus far the methodology adopted to undertake research for this study, may be summarised into five distinct phases. These phases are the sequential steps undertaken by the researcher when carrying out the research at hand. The sequence includes, starting by conducting a pilot study which is followed by then undertaking the main study, which is then followed by the next two steps that are the data preparation and data analysis phases. The last phase is the presentation of findings. These five phases are illustrated in Figure 13, and are accompanied by a brief description of each the phases.

Figure 13 Phases of research method



Source: Author's Own

The main methodological techniques and principles adopted are further summarised in Table 14.

Table 14 Summary of research method and design

<b>Research Method &amp; Design</b>	<b>Applicability to this Study</b>
<i>Research Approach</i>	-Qualitative -Subjective -Inductive
<i>Research Method</i>	Case Study method
<i>Data Collection</i>	-Primary: Semi-Structured Interviews -Secondary: Documentary Analysis -Researcher Observation
<i>Validity and Reliability</i>	-Researcher Participation -Interview Preparation -Use of Technology -Interview Techniques -Triangulation
<i>Analysis</i>	-Within- and Cross-Case Analysis -Analytical Abstraction -Memo Writing

*Source: Author's Own*

#### **4.4 Company profiles**

The following section presents facts, figures, and statistics about the companies that have participated in this research. Their individual profiles are presented in Table 15.

Table 15 Individual Case Company Profiles

	Case Company	Main Business Activity	Sales Derived Specific Market (%)		Target Export Market(s)	Ownership Structure	Foreign Investments	Turnover In Euros (Millions)	Number of Employees
			D <sup>1</sup>	F <sup>2</sup>					
1	<b>KL</b>	Apparel Manufacturer	30	70	US	Family	Marketing Office in US	1.4	125
2	<b>LD</b>	Apparel Manufacturer	0	100	US	Family	Factory in Kenya	2.63	900
3	<b>PF</b>	Apparel Manufacturer	0	100	N. Africa and Middle-East	Sole Owner		1.22	120
4	<b>CG</b>	Apparel Manufacturer	20	80	US	Family		62.02	4000
5	<b>ME</b>	Apparel Manufacturer	0	100	US	Family	Marketing Office in US	13.75	138
6	<b>MT</b>	Apparel Manufacturer	10	90	EU and Canada	Family		0.44	65
7	<b>AT</b>	Apparel Manufacturer	20	80	EU	Family		0.79	100
8	<b>KI</b>	Trouser Manufacturer	50	50	US	Family		13.09	1518
9	<b>HT</b>	Fabric Manufacturer	40	60	N/A	Family		8.7	250
10	<b>TI</b>	Apparel Manufacturer	0	100	EU	Sole Owner		6.98	1500
11	<b>MI</b>	Apparel Manufacturer	60	40	EU	Listed	Marketing Office in Paris & US	68.73	3000
12	<b>SD</b>	Apparel Manufacturer	90	10	Dubai and Kenya	Family		4.36	600
13	<b>BK</b>	Apparel Manufacturer	10	90	EU and Australia	Family		2.62	50
14	<b>SI</b>	Sock Manufacturer	90	10	N/A	Listed		27.92	130
15	<b>NH</b>	Apparel Manufacturer	0	100	EU	Family		2.6	400
16	<b>TWW</b>	Apparel Manufacturer	17.5	82.5	EU and Middle East	Family		13.75	1800
17	<b>TS</b>	Soft Furnishings Manufacturer	0	100	US	Family	Marketing office in US	6.87	400
18	<b>RL</b>	Apparel Manufacturer	30	70	EU	Family		0.35	225
19	<b>PRO</b>	Apparel Manufacturer	0	100	N/A	Listed	Foreign Show Room	65.94	900
20	<b>KK</b>	Apparel Manufacturer	2	98	US and EU	Family		2.06	2500
21	<b>NSA</b>	Apparel Manufacturer	0	100	UAE	Sole Owner		N/O	45
22	<b>UNI</b>	Apparel Manufacturer turned Contractor	0	100	US	Family		N/O	600
23	<b>SG</b>	Apparel Manufacturer	0	100	EU	Family		2.79	160

Source: Author's Own

1 D= Percentage of Sales from Domestic Markets

2 F= Percentage of Sales from Foreign Markets

NB: N/A= not applicable; N/O= not obtainable

Using a standard European classification<sup>4</sup> for company size (see Table 16) most companies in this sample fall under the small and medium sized enterprise category particularly when examining turnover figures alone (5 companies fall under the micro category when using turnover as a criterion, but when assessed using the number of employees as a criterion they fall under the category of a small enterprise and therefore all micro companies in this study have been upgraded to the small category status).

Table 16 Standard European Classification for Micro and SME firms

Enterprise category	Headcount	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

Source: European Commission (2003)

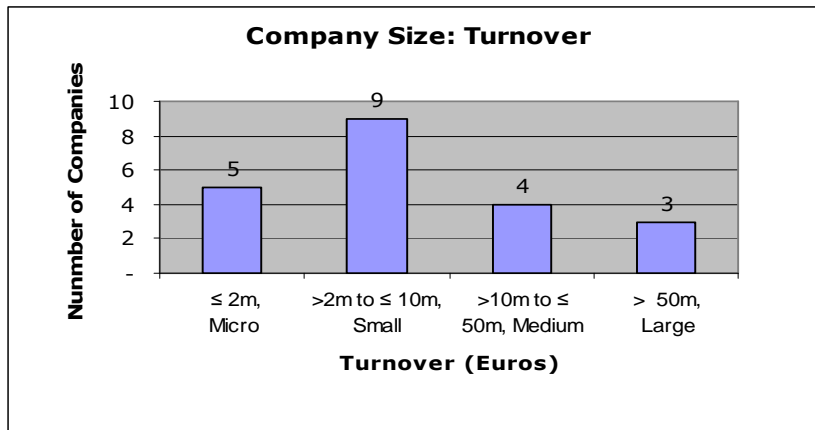
Therefore, Figure 14 illustrates the size distribution of companies that exist when categorised using the standard European classification system and a sales turnover criterion, here the micro size category of a firm is included.

Figure 15 is a revised version of Figure 14 where all micro companies have been upgraded to small category status, reasons for which will be discussed further on, and is the adjusted size classification for SME's used in this study (where all companies who have a sales turnover of less than or equal to 2 million euros are classified as small enterprises).

Figure 16 depicts the size distribution of companies in this study when categorising them using the number of employee's criterion.

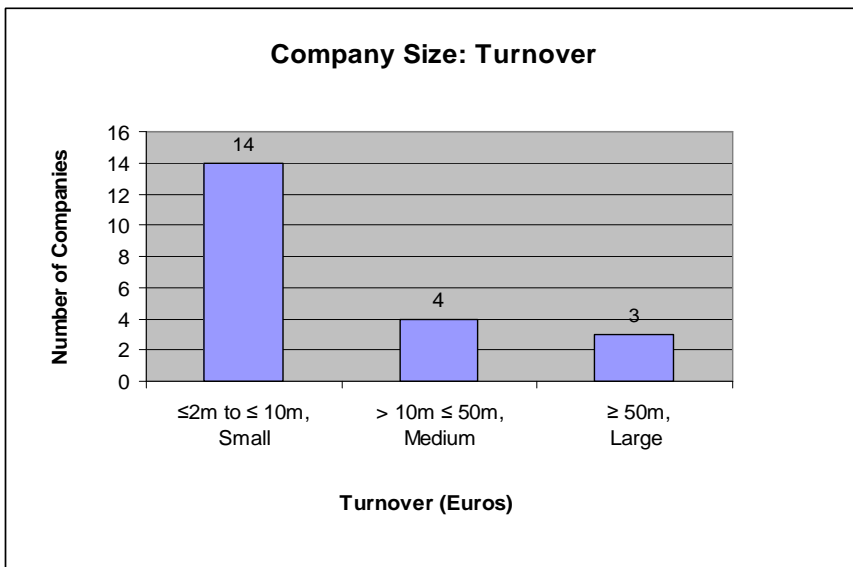
<sup>4</sup> The Standard European classification system for SME companies was used as opposed to the Indian classification for SME companies (available from the ministry of textiles web-site) to enable comparison across studies. The standard classification for SME definition can be found online at: [http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm) [accessed 30-09-09]

Figure 14 Size of case companies using sales turnover



Source: Author's Own

Figure 15 Revised graph indicating size of companies using sales turnover

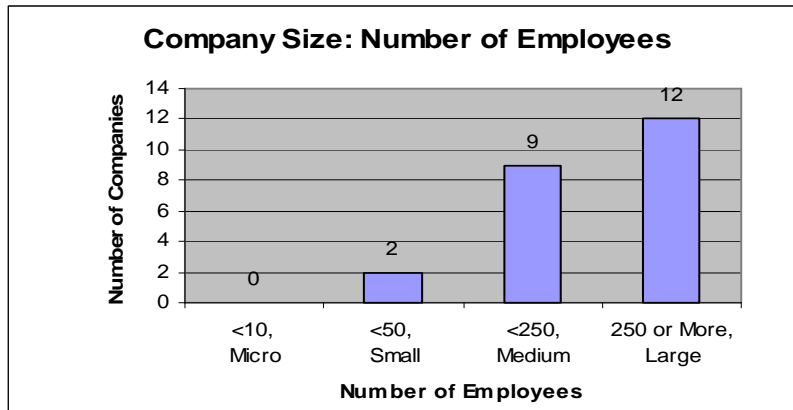


Source: Author's Own

Only three companies fit the category of a large company. The graph, in Figure 14 displays the data for 21 companies, as two case companies, NSA, and UNI, withheld turnover figures.

However, from the observed size of operations and taking into consideration other factors<sup>5</sup> NSA would be considered a micro-sized company, UNI medium to large.

Figure 16 Size of case companies using number of employees



Source: Author's Own

Using turnover as the main criterion for categorising company size, rather than using number of employees, seems a better, more accurate system for companies that are in the garment manufacturing industry which is a labour intensive industry where even small company set-ups tend to carry a large labour base compared to a non labour intensive manufacturing setup; furthermore labour is an abundant and considerably cheap commodity in such low cost manufacturing countries where such industries exist for the very reason.

Figure 16 depicts classification of company size by number of employees and is contrasted to **Figure 15**, which classifies companies by their turnover; it is possible to see that both criterion give very different, almost mirror image, results. However, since the garment manufacturing industry in India is portrayed in extant literature (Verma, 2002; Bhavani, 2006) as highly fragmented with a predominance of small to medium size setups, using turnover as a criterion for size seems to also support and reflect assertions from extant literature.

Thus, above observations and factual data on case companies has helped to compile individual case company profiles as presented in Table 15. This in turn also enables one to construct a profile of a “representative” company from this sample. This is provided in Table 17.

<sup>5</sup> Other factors include employee numbers, and general observations on types of supporting functions carried out in-house.

Table 17 Profile of a ‘representative’ sample company

	<b>Profile Characteristic</b>	<b>As Applicable to this Study</b>
<i>1</i>	<i>Main Business Activity</i>	Garment Producers
<i>2</i>	<i>Market Orientation</i>	International Market
<i>3</i>	<i>Company Structure</i>	Family Business
<i>4</i>	<i>Company Size</i>	Small to Medium enterprise (SME)
<i>5</i>	<i>Foreign Investments</i>	Sales and Marketing Offices
<i>6</i>	<i>Countries Covered</i>	Mostly countries of the US and EU, Switzerland and Australia; A few companies export to Middle East, and North Africa, and one to Kenya

*Source: Author’s Own*

Thus, the “representative” company in this sample is primarily family-managed and owned, has a predominant international orientation and is mostly likely to fall under the small and medium-sized business category. In terms of its exporting activities, it targets foreign markets of the West, particularly markets in the US and EU, with a minority targeting countries in Middle East and North African Region.

#### **4.5 Conclusion**

This chapter starts by presenting the philosophical approaches that guides research. It goes onto establish the philosophical approach that guides this study. The chapter goes on to present the research method used to undertake this study. It establishes the relevance of employing a case study approach and the various data collection and interviewing techniques used to obtain reliable and valid data, and concludes by building a profile of a typical case firm, the IGM, which is the primary phenomenon under study in this research.

The next chapter present the findings of the research. The findings are presented in three parts and address the three main research questions posed at the outset of this thesis.





# Chapter 5 Findings

## 5.1 Introduction

This chapter presents an empirical insight into the internationalisation and upgrading prospects of Indian Garment Manufacturers (IGMs). It is organised in three sections that follow the order of the three main research questions outlined in the Introduction Chapter, Chapter 1, of this thesis. *Section 1* of this chapter addresses the question regarding the importance of Diaspora and ethnic ties in the internationalisation process of IGMs. *Section 2* presents evidence of factors that influence IGMs internationalisation, their choice of specific markets and their choice of specific buyers they cater for. *Section 3* sheds light upon factors affecting the upgrading prospects of IGMs.

### Section 1 Diaspora & ethnic ties & the internationalisation practices of IGMs

## 5.2 Accessing foreign markets through Indian Diaspora and ethnic ties

IGMs that are internationally active unanimously agree that networking in the form of existing Diaspora, ethnic or family ties does not play a role in furthering their international business with foreign retailers. Nor have such ties helped in gaining knowledge of international markets, as is illustrated by the following comments from two IGMs:

NRI [non-resident Indians] are not used as a source for international business opportunities. In my experience if I do business with an NRI, it's usually through word of mouth, publicity or by accident; but not used as a specific focus that ok, fine; let's focus on NRI base to expand our business, that never happens...Networking is not very high. On a scale of one to ten, it's barely two [MT, DNet].

We are doing business with Far East with a lot of Indians as such but we have no ties as such...we prefer not [to] [TWW, NDes].

The above manufacturers, MT, a small woven garments manufacturer, and TWW, a medium sized industrial work-wear garment manufacturer, indicate that although they may do business with Indians, it is not sought purposefully thus alluding to the fact that ethnic ties with Indians are not proactively fostered to instigate or further their international business.

The above comments highlight the consensus felt by manufacturers in this study regarding the negative attitude of Indian garment manufacturers toward employing ethnic and Diaspora networks in accessing international buyers and consequently advancing their international activities.

The following results provide insights into reasons put forth by manufacturers for not using Diaspora networks. The grounds for the lack of networking with non-resident Indians (NRIs) are classified under six possible categories presented in Table 18, and are subsequently discussed individually.

Table 18 Reasons given for lack of Diaspora networking

	<b>Explanations for Lack of Diaspora Networking</b>
<b>1</b>	<i>Price transparency and sensitivity</i>
<b>2</b>	<i>Trust and collaboration issues</i>
<b>3</b>	<i>Availability of formal channels</i>
<b>4</b>	<i>Difficulties in doing business</i>
<b>5</b>	<i>Reluctance to use networks</i>
<b>6</b>	<i>Diaspora's lack of industry knowledge</i>

Source: Author's Own

### **5.2.1 Price Transparency and Sensitivity**

Some manufacturers have experimented with networking with non-resident Indians (NRIs) but their experiences seem to have left a negative impression. They suggest that due to Indian buyers' connections with India, either familial or other, price transparency becomes an issue as the following large, upmarket, design-oriented woven garment manufacturer explains:

I have got some customers who are NRIs who have approached me to do business with me. I met them in exhibitions and stuff but frankly speaking it has not really worked for me because firstly being Indians they know India very well, so that extra premium that you get to make is rather hard because they always have somebody or other...They can always source something cheaper, and we are not a company who's working in the lower end of things, so mostly Indians

settled abroad are very stringent and stingy in their buying...very particular about their costs...They are mainly wholesalers, they are not brands...I have not seen any Indian go abroad and making a brand of themselves [*MI(a), Net*].

In *MI(a)*'s experience most Indians abroad are not branded retailers or high income retailers but more into the wholesale business, which means that they are more likely to be price sensitive and are therefore always on the lookout for cheaper suppliers. Furthermore, through connects in India they keep track of various circumstances in the garment industry that are context-specific to India and therefore always assume an upper hand in the bargaining and negotiating process with their suppliers. This point is made by buyer TS below and is a complaint found in several other comments reported in this section. This constant undercutting of prices dissuades companies such as *MI* to seek retailers of the same ethnic background abroad; instead they prefer to cater to well known Western branded companies who are fashion conscious for whom price is not always the foremost criteria used when searching for able manufacturers. Such buyers may also look for manufacturers who can offer high quality finishing and value added procedures such as design and detailing which in turn command higher earning potential for the manufacturer.

Other manufacturers in this sample have also alluded to similar experiences when dealing with Indian Diaspora as is suggested explicitly by the following quote from textiles manufacturer TS:

[The] United Kingdom was a big buyer [of textiles] and Manchester was a big hub, and in Manchester even if you go today most of the textiles industry is handled by Indians...they import the greige<sup>6</sup> [from India] and if there is for example something happening in India you know they want to squeeze you to the last penny...because they have a relative in India, they know that...[e.g.] the rupee-pound exchange rate has improved...so that guy immediately sends us a

---

<sup>6</sup> Greige fabric is fabric that comes directly from the loom and has not undergone any processes to convert it into a finished fabric. This type of fabric includes unfinished fabric woven from coloured or dyed yarns. This is in contrast to "finished" fabric which is a fabric that has undergone all processes required to convert it from a greige fabric to a fabric sold to an apparel manufacturer; Definition available online 16/01/09: <http://canadagazette.gc.ca/partII/1998/19980121/html/sor86-e.html>

cable...saying 'Sorry, this order is cancelled, we cannot accept it unless or until you give it to us at a lower price,' so then he would come up with that kind of a discount, so they are constantly squeezing...they know what's going on and they know if a government scheme coming up and they know that benefit will also come to the exporter, so they want to squeeze the last penny out of you, they want to find the most ficklest of reasons to get out of a contract if they didn't have any sales or something like that, they didn't want to be the father of a daughter, like we say in India, they wanted to be the father of a son all the time. So looking at that, I personally [would] not have that kind of an association. I mean I do have my Canadian agent who is an Indian who is from my same community, but it happened just by chance...He was working in a company which is owned by a Canadian and then that Canadian retired and he left the company and sold the company to this guy and so he is my agent...We did not go to find an Indian, not that I have not worked with an Indian abroad. I have worked with an Indian abroad and I have had those bitter experiences so we try and avoid *[TS, DNet]*.

### **5.2.2 Trust and Collaboration Issues**

The lack of trust and collaboration in the industry is brought up as a factor hindering IGMs' networking prospects with Indians abroad, as is illustrated by the comments reported below. What is interesting to note is that there are various opinions as to why this lack of trust exists, ranging from difficulty in doing business in India due to government harassment, negative and uncooperative mindsets, ties to India (as discussed above), and lack of a culture of building relationships, which in turn leads to a short-term business orientation:

#### *Difficulty of doing business*

Indians don't understand the importance of Indians, it's the biggest disadvantage we have. Indians are too selfish; [they] cut and slice their own. We are so harassed by the government here that we tend to be selfish; there are so many operational costs, you're constantly under a scanner. [There would be] more business, more trust if it was smooth doing business here *[BK, Net]*

#### *Negative Mind-set*

Community ties for networking purposes do not work because people have negative minds. No one wants to work together; they do not believe in interaction *[KI, DNet]*.

The following manufacturer, HT, uses the analogy of ‘crabs in a bucket’ to describe why he believes community networks within the Indian context does not work, as well as alluding to how buyers’ ties to India result in too much price transparency. He further suggests that the short-term orientation of Indian buyers towards their suppliers also hinders the chance of building networks between Indian buyers and suppliers:

What happens if you put crabs in a bucket? Why can't they climb out? Because they are always clawing at each other and pulling each other down, not letting another one up. This is similar to Indians. Indians abroad will do business with only one other guy but ...he will always be on the look out [for other suppliers]...Suppose when you have 3 or 4 people making fabric for you they are not supposed to put their name tag in the boxes but at some point they will, so that the buyer will know who the original manufacturer is; so Indians cannot be trusted. A lot of overseas Indians have domestic [Indian] links. They know you might sell to them once or twice ultimately. This fellow [overseas Indian buyer] is coming to India and he is looking for a new supplier so they are always on the look out, but a European will not do this because they are more afraid that if they leave one supplier what will the others be like? They are more likely to build lasting relationships, more long term orientated, not short term business [*HT, NET*].

### 5.2.3 Availability of Formal Channels

The following comments from manufacturers suggest that there exist a number of alternative, more formalised channels, through which IGMs can access and connect with foreign buyers:

In this business it is difficult if you deal with Wal-Mart etc. Here Indian Diaspora does not help; maybe if you cater to the ethnic related clothing [*KK, Net*].

It does not happen all the time [using Diaspora networks]...because there are always agents. Now what's happening [is for example] Wal-Mart...have their own office, their buying office, so they have to just ask their office for their requirements here, or there are agents...So I don't think that kind of thing [networking] might be helping. Many exporters have their own offices abroad, and many customers have their own offices in India...and there are a lot of agents as well [*NH, DNet*].

The use of these formal channels is especially true in the case of large international buyers, such as Wal-Mart, Li & Fung etc., who have themselves, provided the channels. In such cases, accessing markets via the Indian Diaspora would be an added effort when such readily available links exist in India. This explains to some extent why IGMs have not seen the need to forge links with Indians abroad.

Another interesting point brought up by manufacturer NH above is the fact that IGMs are setting up their own foreign offices in their target market. Four case companies in this study have setup foreign offices that better enabled them to access foreign markets.

#### **5.2.4 Difficulty in Doing Business With Family**

Some manufacturers thought it unwise to do business with family members as it makes it very difficult to keep the personal realm out of the professional realm. This is suggested by the following comments made by a producer:

You know relations barely work on personal grounds, which is really very true, you can shout at a supplier and tell him ABC, but it really becomes difficult at a brother if something goes wrong, e.g., if he sends something where the colours may bleed or it's not on time and there may be ten other problems [*MT, DNet*].

Family disputes are a problem noted in comments by other manufacturers within this study. PF, who in the past had conducted international operations using family ties, fell out with his brother in Dubai and decided to end the partnership and instead venture out on his own, starting afresh. Something similar seems to have happened to KI, who preferred not to elaborate, but also started afresh. Despite the setback of using family ties, both manufacturers still see the importance of networks and suggest their lack of ties has held them back in terms of growth.

#### **5.2.5 Reluctance to Network**

Some manufacturers have been reluctant to actively seek networks or develop networks, one possibility being, as suggested above, that there are other easier, more structured, channels through which they can access foreign buyers, which requires less effort on the part of the

supplier than forging links with Diaspora. However, some manufacturers are reluctant to network, as they do not want to expand their business operations, as suggested by the following manufacturer's comments:

It [networking] is important if I want to expand and continue growing but for me I don't want to do that, because I [would not be able to] fulfil my commitment. So I am happy with whatever kind of business I am doing [*NH, Net*].

Furthermore, a reluctance to develop networks can be interpreted as a need to be self-sufficient and protect the firms' own independence, rather than being dependant on the needs of buyers, which would then force the manufacture to restructure the way they operate their business to serve the buyer.

#### **5.2.6 Diaspora's Lack of Industry Knowledge**

The following manufacturer's comments highlight an important point, relating his experience when trying to forge links with an Indian living in Germany:

In a few cases [he has done business with Diaspora]...But it has not really helped me that much...It's not that I have made a big success of it, but I have done business here and there...I had somebody I knew he was an Indian who lived in Germany and he was into [the] metal business and I got to know him and we thought why not do garments together. So we approached a few customers, I went over there, we did a little business, but then his core strength was not clothing...and it's a very knowledge based industry [*MI(a), NETD*].

Overall, the above presented findings and evidence suggest IGMs do not use Diaspora networks and ethnic ties as a preliminary means by which to access foreign market or even to grow and expand their international operations. Thus, a logical lead question to ask is how then IGMs set up initial links to foreign markets or foreign buyers that reside within these markets. That is, it becomes important to investigate the international process by which IGMs access foreign markets. The subsequent findings help to shed light upon the access routes employed by IGMs to internationalise and go on to describe and explain the internationalisation process of the IGM.



### 5.3 Accessing foreign markets: Alternative channels & networks

Although the above findings establish most IGMs in this study have not relied on networks based on ethnic or Diaspora relationships to access foreign markets and buyers, manufacturers have shown that they instead network actively in alternative ways. The way in which they access their customers or the way in which they make connections with clients vary, and along with the different approaches used, the successes recorded also vary. Manufacturers studied here rely on six forms of alternative networks to make contact with potential buyers, access foreign markets, and participate in buyers' production networks. The six channels are summarised in Table 19.

Table 19 Six alternative networking channels to Diaspora networks

	<b>Alternative Channels of Networking</b>
<b>1</b>	<i>Fairs</i>
<b>2</b>	<i>Buyer Mobility</i>
<b>3</b>	<i>Agents</i>
<b>4</b>	<i>Buying Offices</i>
<b>5</b>	<i>Setting up of an Office Abroad</i>
<b>6</b>	<i>Internet</i>

*Source: Author's Own*

Each of the six channels is discussed individually in the ensuing sections, helping to illustrate how IGMs depend on alternative networks to access foreign buyers and markets.

#### 5.3.1 Fairs

Fairs seem to be a popular mode used to carry out network type activities for many of the IGMs in this study. It is where they are able to make initial contact with foreign clients. The client would most likely approach the manufacturers stall and if interested initiate further conversations. Industry associations set up the trade fairs, and participating companies setup a stall with their wares, showing the range and styles of clothes that they are able to manufacture. Based on IGMs' stalls buyers and their designers' mill about picking those IGMs who they feel best represent the types of styles and clothing quality that would fit their retailers' requirements. The following manufacture discusses the importance of fairs as a conduit for networking:

Networking is a top priority; we network through fairs as well as association meetings that may be held...All this helps us gain exposure to people... *[TS, DNet]*.

### **5.3.2 Buyer mobility and referrals**

All manufacturers expressed the importance of keeping good relations with buyers as it provided an important source from which they derived further business. As explained by MI(a) below:

Most of the time if you're working in the French market you work with 'x' company, with 'x' buyer [when] that 'x' buyer leaves that company and joins 'y' company...he also brings you that business. If your relationship and your working with him has been very nice...he doesn't forget you when he moves on. Because if he is a shirt-buyer in 'x' then he would be a shirt buyer in 'y' or he would know [a] shirt buyer in 'y' and introduce me because he has had a good experience with me, so it's also word of mouth which has really helped me a lot *[MI(a), Trans1]*.

MI(a) explains how many buyers have introduced them to their new clients, as when the buyers moved jobs they maintained relations with suppliers of their previous employers. This experience was common to all manufacturers in this study.

### **5.3.3 Agents**

Agents' represent one of the most popular network factors that Indian garment manufactures use in order to access foreign clients. Across the sample, companies in this study used agents as a means to access foreign buyers or specific markets that they felt they would like to target. The agents were both located abroad or in the suppliers' domestic market functioning as important intermediaries connecting manufacturers with appropriate buyers and vice versa. Many suppliers would sign up with agents who would then represent them and bring customers to them and for which they would be paid a commission.

### **5.3.4 Buying offices**

Many of the larger brands or retailers have setup buying offices in India. The establishment of formal networking avenues in India, by buyers, has helped IGMs approach and gain access to

foreign buyers more easily. However, it must be noted that not all buyers have buying offices set-up in their supplier markets; this is particularly true of buyers that are small in comparison to world-class buyers like Wal-Mart etc. In such instances, both foreign buyers and manufacturers are known to go through agents to connect with one another.

### **5.3.5 Setting up a foreign office**

The fifth route used by some IGMs to accessing foreign markets is through setting up a foreign office of their own. The foreign office acts as a marketing office for the Indian based manufacturer and substitutes the need for a hiring third party or an intermediary, like an agent, to act on its behalf. In some cases, this route could be interpreted as a form of family network, as commonly the manufacturer sets up an office abroad through re-settling a member of his/her family in the target country, with the exception of MI, who has an office in Paris which is run not by family members but instead by hired managers. This is a way in which some companies have access foreign markets that resembles the building or use of ethnic ties. The following quote illustrates the function of the office abroad, and the use of familial ties to develop a network rather than using pre-existent ties or Diaspora networks:

There are three brothers, we have three different companies; each company deals with marketing, production and operations...We work together; one brother is based in the US and he is in charge of the marketing, that is the booking of orders as well as the design function, [which] takes place in the US. The operations and manufacturing function is here in India...Having a family-held business means the plus points are that you are working with your own, so there is trust, you are all on the same wave length- you have the same aims and goals for the company and also there is better comfort level and therefore communication between us...[Also] all of us are bosses and we are all connected to the buyer [*TS, Dnet*].

The following quote explicitly demonstrates the re-settling of a family member to create a network abroad:

We have used networking; his brother [the owner's brother] is there [in the US]...He had knowledge of US, his main work for us is marketing, accessing the market and financing, he opens the LC [letter of credit] from US, against that I can get money from the banks here...[He] was there [in the US] for education; in 1976 garments

was a boom business in India, a lot of garments were being exported, so we suggested that we would support him from here [*LD, DNet*].

### 5.3.6 Internet

Surprisingly only a few manufacturers from the sample cases used the internet as a means to network, approach buyers, or represent themselves, these include companies like ME, HT and TWW. In fact, many manufacturers did not even have operational web sites, even as a way of representing their company profiles. Many felt that this was not necessary for their business interests and would not help in accessing international buyers. Some felt that it instead provided company information to their competitors rather than prove useful in attracting new buyers. The lack of importance given to websites is further suggested by manufacturers who when asked about their website suggested that it was not updated and not necessarily a good point of reference or information. Again, this was normally in the interest of containing and restricting knowledge of their business developments from competitors.

Overall, what is evident is that many of the manufacturers in this study use some combination of these six networking practices to gain access to foreign clients, and are not reliant on any one. The following discussion with MI, a manufacturer of high fashioned woven garments, helps illustrate this point, it demonstrates that MI uses four of the six alternative networking routes, discussed above, at any given time to access foreign buyers (the various networking employed are highlighted in the main body of the quote using italics):

There are different ways of networking. Firstly, we have *agents*...who we have approached and they have become our agent. [In] Italy we have an agent, [in] Finland we have an agent; we had an agent in France for a while. Apart from that, there are different *exhibitions* we participate in related to our business...around the world and different buyer-seller meets or major exhibitions for clothing and textiles where we make our contacts. Apart from that, there are *buying agents* that exist in India itself. They are like representative offices of all the companies abroad in Europe or in US, so they are always looking for good sourcing, good companies to work with, so we [go] through them...And what has really helped me is my relationships with people [*with buyers who move jobs* and maintain working relations in their new job] [*MI(a), Trans1*].

The results presented in the aforementioned sections suggest IGMs use various alternative routes to Diaspora networks and ethnic ties through which to make initial contact with foreign buyers. However, to build a more complete picture and an insight into the dynamics of the internationalising IGM, investigating the initial contact method is insufficient; examination of the before and after processes of making contact with foreign buyers become important considerations as discussed in Chapter 2 of this thesis. These before and after processes combined with the actual process of linking with and developing foreign contacts constitute an important element of the internationalisation process of the firm.

The ensuing sections thus present the results of the investigation of the process of internationalisation by IGMs. The results from this study on the internationalisation patterns of IGMs is examined through comparing and contrasting the outcomes to patterns recorded in existing theories of internationalisation as developed in the field of International Business (IB), and as presented in Chapter 2 of this thesis. In essence, IB theories of internationalisation function as a tool aiding to both describe and examine the process of internationalisation undertaken by IGMs.

#### **5.4 Internationalisation Process of IGMs**

The IGMs' studied here were asked directly to describe the way in which they internationalised their business activities. In addition, we noted their date of incorporation, their export start date and the percentage of their sales derived from exporting. IGMs were asked to elaborate about their activities prior to exporting or leading up to exporting where appropriate.

Table 20 presents the dates of incorporation and export start dates for companies and calculates the time it took for each company in the data sample to internationalise their business activities through exports. It also includes the percentage of sales exported by each company. Previous studies on internationalisation processes have identified these figures as important criteria in helping to determine their speed to internationalisation, as will be discussed later. Results for the time to exports for 19 out of 23 case companies are presented in Table 20. This analysis was, for various reasons, not applicable to three of the companies, HT, PRO, and UNI, and they are discussed individually due to their special case status. For a fourth company, KI, relevant data were not obtainable.

Table 20 Analysis of export & incorporation dates

	Case Company	Export Start Date (a)	Date of Incorporation (b)	Number of years it took to internationalise (a)-(b)	Percentage of sales that is exported (%)
1	KL	1997	1977	20	70
2	LD	1976	1976	0	100
3	PF	2003	2003	0	100
4	CG	1970	1970	0	80 <sup>6</sup>
5	ME	1985	1985	0	100
6	MT	1982	1982	0	90
7	AT	2000	1999	1	92
8	KI	<i>N</i>	<i>N/O</i>	<i>N/O</i>	<i>N/A</i>
9	HT <sup>1,2</sup>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
10	TI	1981	1977	4	100
11	MI	1995	1984	11	40
12	SD <sup>1,3</sup>	2002	1989	13	15
13	BK	1993	1991	2	90
14	SI	1996	1992	4	10
15	NH	1989	1989	0	100
16	TWW	1975	1975	0	85
17	TS	1976	1976	0	100
18	RL	1995	1995	0	70
19	PRO <sup>1,4</sup>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
20	KK	1974	1944	30	98
21	NSA	2003	2003	0	100
22	UNI <sup>1,5</sup>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
23	SG	1972	1967	5	100

Source: Author's Own

NB *N/A* not available; *N/O* not obtainable

<sup>1</sup>These companies are special cases and are discussed independently.

<sup>2</sup>Case company HT is a fabric manufacturer and does not directly export, but knows their goods are used in the production of exported garments.

<sup>3</sup>Case company SD is a branded manufacturer and retailer in the domestic market with intermittent exporting activity

<sup>4</sup>Case company PRO is a branded garment manufacturer and retailer for the domestic market, having de-internationalised their business activities.

<sup>5</sup>Case company UNI is no longer a garment manufacturer who exports, but has changed business activities and now works as a procurement and solutions provider in the garment business.

<sup>6</sup>Figure obtained from Company Website

Table 21 is a summarised version of Table 20, and indicates the common patterns amongst companies concerning their time to internationalisation.

Table 21 Summary of Internationalisation Results

Number of Companies	Gap Between Year of Incorporation and Export
10	0
2	4
1	1
1	2
1	5
1	11
1	13
1	20
1	30
<b>Total of 19 Companies</b>	

*Source: Author's Own*

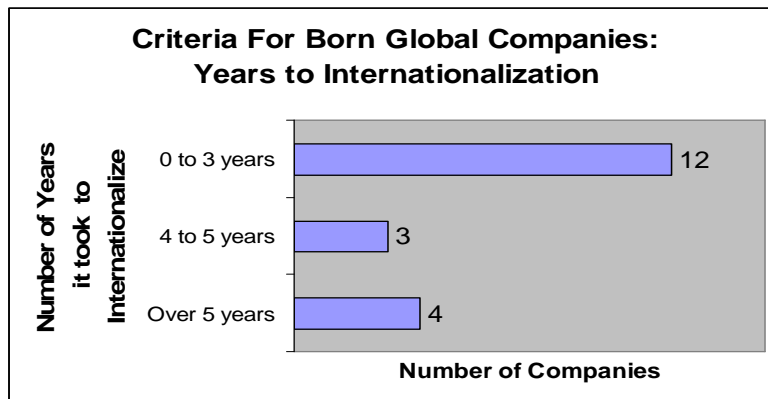
The summarised findings in Table 21 show that a surprising number of case companies (10 out of 19) internationalised straight away, at inception. In addition, most of these companies, with the exception of SI and SD (who are domestic orientated companies) and MI, derive 50 per cent or greater of their sales from exports. MI derives 40% of its sales revenues from exports, thus falling short by 10%; the rest of the 14 companies derive 50% or more from exports.

Companies in this study, when asked about their internationalisation plans or goals when starting their business, expressed the view that they started their companies with the intention to export. Companies expressed two common reasons for wanting to start exporting from the outset. The first was a result of incentives given by the Government of India (GoI) whereby those companies that set up a 100% Export Orientated Unit (EOU) paid zero duty on imported machinery. This provided a huge incentive not only to export from the start but also to buy new, imported, up-to-date machinery rather than rely on dated or obsolete second-hand equipment. The second reason given for exporting from the outset was the fact that at the time the domestic market in India presented limited opportunities for the sale of ready-made garments, unlike Western foreign markets. Various Reports (Cygnus Report, 2004; B&K Report, 2007) on the retail sector in India recount that historically the domestic Indian retail sector was highly unorganised and run by mom and pop type stores who sold traditional ready-to-stitch or made-to-order clothes rather

than work on a ready-to-wear or ready-made marketing principle. In the past decade India has seen an emergence of an organised retail sector where the sale of ready-made clothes, both western and traditional, is increasingly offered in chain stores and other types of retail outlets situated across major tier one and tier two metropolitan cities. The retail boom is a result of a growing middle class largely fuelled by the IT and BPO boom experienced in India. However, the impact of the emergence of an organised domestic retail sector in India on IGMs will be discussed further in the discussion chapter, Chapter 6.

The main concern of this section is the internationalisation processes of IGMs. Given our intention to examine the applicability of the born global and INV concepts in explaining IGMs' internationalisation patterns, we should bear in mind the criteria to identify a company as a 'born global' or 'INV'. The most commonly chosen criteria to be considered a born global firm is that a company must have foreign sales accounting for 25% or more of total sales and have started exporting activities within 3 years of firm establishment (Knight and Cavusgil, 2004; Madsen, 2000). McKinsey and Co (1993) were the first people to bring to fore the concept of a 'born global' firm. In their landmark study, they adopt the criterion for identifying a born global firm as within 5 years from inception for export activity and a 50% minimum for international sales. Figure 17 shows the number of case companies who meet the first criteria supported by both Knight et al.'s (2004) and Madsen's (2000) work and the second criterion set by McKinsey (1993) regarding the number of years to internationalisation.

Figure 17 Years to internationalisation as a measure of being a born global



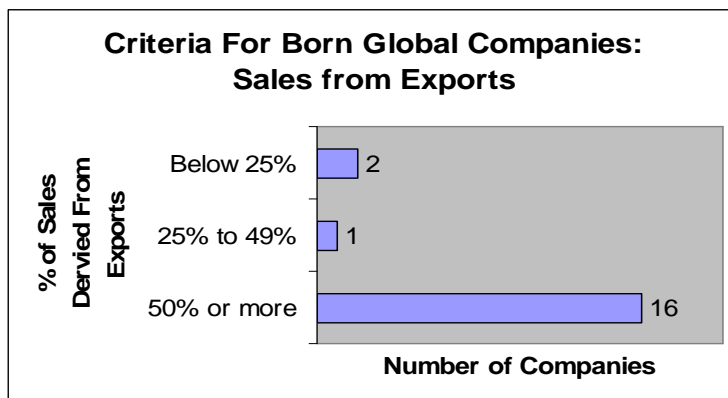
Source: Author's Own



From Figure 17 it is possible to see that the majority of companies in this study internationalised their business activities within the first three years of existence. In fact, a further breakdown of the 12 companies would show that 10 of these internationalised from inception, that is, within zero years of being born. Furthermore from a total of 19 case companies for which this analysis is applicable, 15 (12+3) internationalised within the first five years of inception, whereas only four case companies took over five years to internationalise. The above results indicate that 15 of the companies fit the McKinsey (1993) criteria, and 12 the stricter Knight et al. (2004) and Madsen (2000) criteria for being labelled early internationalising companies or born global companies.

The second requisite for being a born global is the percentage of sales derived from exports. Figure 18 allows for a comparison of this criterion.

Figure 18 Sales from Export as Criterion to be a Born Global



Source: Author's Own

Figure 18 illustrates that the majority of companies (16 out of 19) derive 50% or more of their sales from exports, thus fitting both the McKinsey (1993) and Knight at al. (2004) export sales criterion for a company to be classified as a born global or 'international new venture'. Only MI, failed to fit both sales criteria, as 40% of their sales revenue is derived from exports thus falling short of McKinsey's 50% criterion. Two companies, SD and SI, did not meet either of the sales criteria, although as indicated by Table 22, SI meets the years to internationalisation criterion but not the export-sales criterion.

Table 22 Determining born global status

Case Company	Number of Years to Internationalise	% of Sales Derived from Exports	Does the firm meet the required criteria?
SD	13	15%	Does not meet any of the Born Global criteria.
SI	4	10%*	Meets one of the criteria: the years to internationalisation criterion.

Source: Author's Own

\*The figure of 10% refers to the percentage of sales derived from exports for the new factory that SI built after an accident led to his factory burning down. This old factory was built solely to cater for sale of socks to the international market, as explained in the quote.

Thus it is questionable in particular whether SI can be classified a born global company. Upon examination of interviews conducted with the two companies, the results become clearer. SI, a sock manufacturer, started with 100% sales derived from exports (these figures are for his first factory before his it burned down subsequent to which he build a replacement factory which largely caters to the domestic market as supported by evidence in Table 22, as he explains in the following quote:

We were a 100% export orientated unit (EOU). Now that was a special scheme by the government of India, which said that you could get in all the machines without customs duties provided you 100% exported. So this gave us an incentive to 100% export and that time the customs duty in India were prohibitive, in the years that I am taking about, so obviously we chose this path [exports]...Maybe at that point of time if you tell me I would agree with you [that they were export orientated], but then subsequent to that there is no market like the Indian market I would say, I mean right now we are not exporting, we are exporting very marginally now [SI, pp3].

In addition, to the above comments the owner of SI elaborated that when their only foreign buyer, based in Manchester in the United Kingdom, went broke, together with the misfortune of their factory being destroyed in a fire, they, the joint owners of SI, decided to start afresh. Not only did they build a new compliant factory but also decided to re-focus their efforts by servicing the domestic market instead of the foreign market, which is reflected in the results presented in Table 22. The new factory concentrates on servicing the domestic market with only 10% of its sales derived from the international market and where the first international sale took

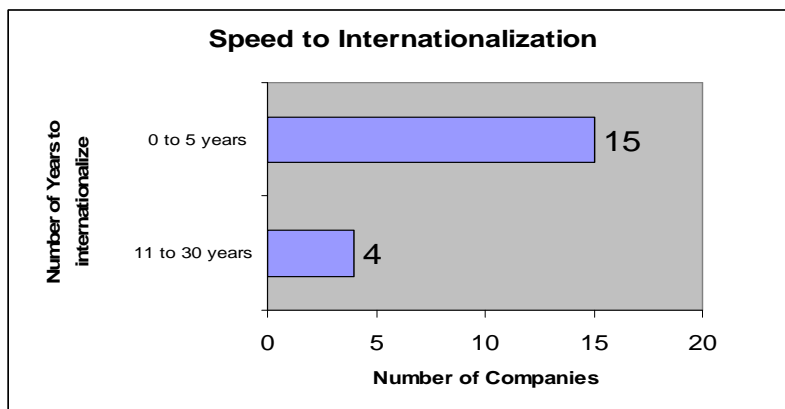
place four years into the company’s existence. SI’s owners comment that “there is no market like the Indian market” once again confirming the important role the Indian domestic retail market has come to play in affecting the internationalisation activities of IGMs as mentioned earlier in this chapter and to be discussed in detail in Chapter 6. What is interesting to note is that although the company now caters to the domestic market, it does this through mainly working for major international brands that sells their merchandise within India, as is indicated by the following comments:

Our main customers as on date are domestic. We are working with all multinational companies in India. We are catering to almost 40 to 45 multinationals, they are the foreign companies based in India, they are making for the Indian market, like Puma, Nike, Benetton, Fila, Reebok, Lacoste, Adidas, anything, anything, you name it [SI, pp4].

The second company with a low export sales value is SD. SD is a loungewear and sleepwear manufacturer and branded retailer. Although SD exports, it still does not fit either the export sales criterion or the five-year internationalisation criterion, and thus is an interesting case to review relative to other case companies. Analysis of its internationalisation process suggests SD to be a rare example (in this study) of a company that shows a more gradual internationalisation process, which is examined in detail in the ensuing chapter.

Figure 19 depicts the contrast of speeds to internationalisation for the rapid internationalising firms versus the more gradually internationalising firms.

Figure 19      Contrasting speed to internationalisation across case firms

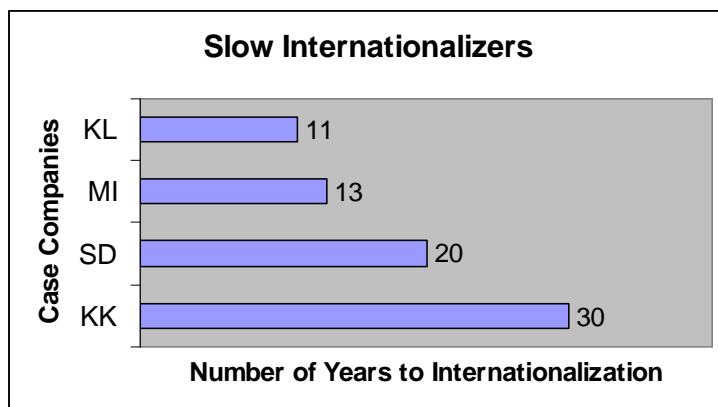


### 5.4.1 Gradual Internationalising Firms

First, the four gradually internationalising firms, possibly more traditional firms, are examined to understand how they internationalised and what led them to internationalise in this way. This will be followed by the examination of the more rapidly internationalising companies that make up the rest of the sample.

Companies KL, MI, SD and KK first established themselves in the domestic market for a longer period relative to the other companies in the study before internationalising their business activities. Figure 20 shows the times it took for the four companies to internationalise.

Figure 20 Gradually internationalising case companies



Source: Author's Own

Case companies MI and KK before exporting garments were both fabric manufacturers predominantly catering to domestic market consumption needs. KK actually started as a trader in raw cotton (Company Website) before even manufacturing fabric. Thus in this respect these companies could be perceived as mature firms that have established themselves firmly in the domestic market for related product areas.

In contrast, KL's owner is an exception in comparison to most companies' owners within this study, as he started his garment manufacturing company in 1977 and catered solely to the domestic market until 20 years later in 1997, when he decided to venture into servicing the international market. Thus, the course of internationalisation his company has taken is akin to that described by process-based models of internationalisation, as he initially serviced the

domestic market and after having established himself for 20 years started indirectly internationalising through tentative orders from manufacturers who hired his company to work on a job-worker basis for their over-capacity orders. His next stage was to seek foreign orders through the help of agents, until 2001, when he set up an office in the US. KL's owner commented as follows:

My son is in the USA; he books the order with the catalogue stores he contacts on email, he gets the appointment...Yeah, he shows them samples and they approve...We don't go through agents my son is there he acts like agent...before through agents only we approached clients *[KL, ACCI]*.

SD seems to be going down a similar gradual route to internationalisation as KL, but what is interesting to note is that it has established itself not only as a manufacturer of garments for the domestic market but also as a manufacturer and retailer of their own branded apparel. SD manufactures and retails sleep and lounge wear apparel, selling its product under the brand name 'Sweet Dreams' predominantly in the Indian domestic market, although it started by exporting to foreign buyers who are department stores and multi-brand outlets in UAE, Dubai and Kenya. The process of internationalisation for SD, although currently intermittent, seems to resemble an incremental gradual process whereby it built its business in the domestic market for the last 13 years and as recent as 2002 began exporting intermittently to buyers. The following comment suggests SD's informal approach to internationalisation:

As a company we have always focused on the Indian market and whatever business that has come across our way we have welcomed them and we have catered to those businesses, we haven't put up any extra effort in going to UAE...Buyers have come in here, they have met us in some kind of fair, they have liked the range they have sourced from us and they have continued to source from us, but strategically we haven't gone ahead and done...chosen specific markets *[SD(b), pp 8]*.

SD's non-committed, laid back and almost reluctant approach to internationalisation is further illustrated by the following comments:

We started off with the Indian market so...our next step would be internationalisation, but I don't know to what extent we are looking at

it right now...Very frankly, we haven't charted out any such plans as of now because the Indian market itself is doing so phenomenally... See, for international [plans], if we have to move as a brand in international markets, it requires huge investments, and unless this entire concept is backed by big money and risk funds...it doesn't make sense to take a step forward [*SD(b)*, pp 5, 12].

The above comments once again show how domestic market opportunities influence their internationalisation process, but also highlight the difficulties perceived in accessing foreign markets with a branded product. However, in his next comments regarding the growth prospects of the firm, he suggests that there is a matter of maximising revenue for minimum effort, a factor that is also repeated else where by other manufacturers in varying contexts.

Automatically growth drives people to expand. It's a matter of relative terms, if we start feeling that now the growth which we anticipate is to come is going to come from overseas market easier than Indian market and more profitable...so it's a call [to go abroad] [*SD(b)*, pp 12].

The ease with which firms encounter growth opportunities and profit maximising opportunities is a factor that influences their internationalisation decisions and process. The effort expended in terms of costs, risk and time are all factors that also shape the internationalisation prospects as well as processes of IGMs. Why, after all, would companies go abroad when there are easier opportunities of maximising profits in the home market, a place that is familiar and already accessible to them?

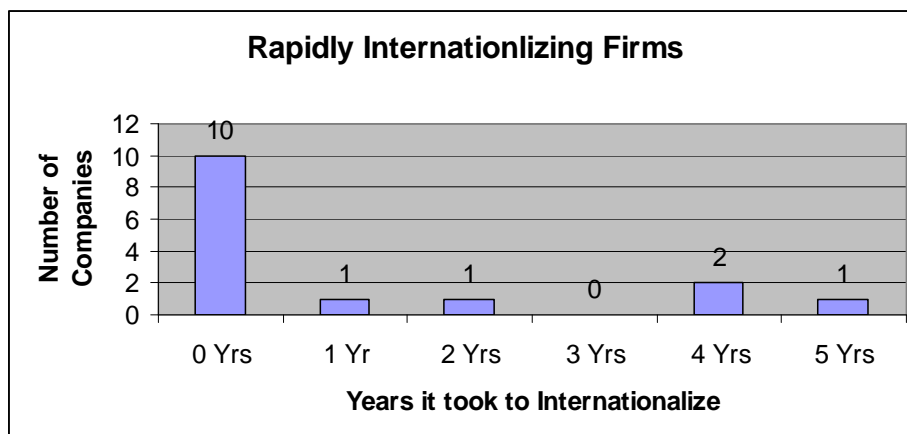
The above discussion regarding the four gradually internationalising companies, KL, MI, KK and SD, shows that firstly it is not a straightforward matter of these companies being slower to first export; as MI and KK indicate there could be a shock event that enables them to speed up the process at a later stage. Also as in the case of SD the effort it takes to maximise profits may be higher if the company internationalises than if they sought out opportunities present to them in the home market. These efforts include not only increased use of resources and added costs but also the time necessary to gain profits, which may be longer in foreign markets. Secondly, companies like KL and SD who are gradual internationalising firms constitute a small number of the entire group of companies within this study. As established earlier, these companies

predominantly fit the INV model of firm, that is, those who are rapid internationalisers. The following section further examines the observation regarding the prevalence and intricacies of rapidly internationalising firms.

#### 5.4.2 Rapidly internationalising firms: Born Globals & INVs

In comparison to the gradually internationalising firms, the rapidly internationalising firms are much younger when they first internationalise their business operations and thus can be said to be lacking in operational experience at time of internationalisation. Despite this possible drawback, these young companies have internationalised their operations, on average, at inception. A breakdown of the number of years this has taken in the case of those firms classified as rapidly internationalising firms is presented in **Figure 21**.

Figure 21 Rapidly internationalising firms



Source: Author's Own

What is interesting to note from **Figure 21** is that amongst the 15 identified rapidly internationalising firms, 10 fall within the '0 years to internationalisation' category, in effect internationalising their activities at inception. In addition, a significant proportion of the Born Global/INV firms' sales are derived from their overseas activities, as demonstrated in Figure 18.

## **5.5 Conclusion to Section 1**

Section 1 of this chapter has presented evidence regarding the relevance of Diaspora networks and ethnic ties in understanding how IGMs connect with foreign buyers and markets. It illustrates various alternative routes IGMs can use to access foreign buyers. The following section, Section 2, investigates the motives for and drivers of internationalising IGMs.

### **Section 2 Factors that shape IGMs internationalisation, market & buyer choices**

Section 2 of this chapter presents empirical data that helps address the second main research question outlined in Chapter 1. The second research question is composed of three key elements: first, what factors influence IGMs choice of buyers they cater for; second, what factors influence IGMs choice of specific markets; and third, what factors help or hinder IGMs internationalisation efforts. These elements are interrelated and constitute a logical next step from having presented findings regarding the internationalisation process and activities of IGMs. It also provides a foundation upon which findings on upgrading practices, motives and prospects of IGMs can be presented, which concerns Section 3 of this chapter.

First, it is important to establish the most common type of buyer the IGMs in this study cater for as this allows one to establish factors that help or hinder IGMs' access to specific buyers, their choice of specific markets and thus influence their internationalisation prospects. The literature, in Chapter 2, on global value chain (GVC), specifically focuses on IGMs that access the production networks of one key type of buyer, the lead firm. Thus, it must be first established as to what is the prevalence of the lead firm as a type of buyer that IGMs cater for, and similarly to what extent IGMs cater to alternative buyer types than the lead firm.

## **5.6 Types of Buyers IGMs Cater For**

When asked what types of garment buyers or retailers IGMs catered for they suggested seven categories of buyers with whom they commonly interact with and produce for. These seven categories have been summarised in Table 23.



Table 23 Types of international buyers IGMs cater to

Case Company (IGMs)	Large, Branded Retailer	Large Branded Fashion Retailer	Department Store or Multi-brand outlets	Mail Order or Catalogue Retailer	Small, Branded Fashion Retailer	Budget or Discount Store	Importer/Whole Seller	Other
KL				✓				
LD	✓	✓						
PF							✓	
CG	✓	✓	✓	✓	✓			
ME			✓	✓				
MT				✓	✓			
AT				✓	✓			
KI	✓							
HT	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TI					✓			
MI	✓	✓	✓		✓			
SD			✓					
BK				✓	✓	✓		
SI	✓	✓						
NH		✓			✓			
TWW							✓	✓
TS					✓			
RL			✓	✓	✓			
PRO	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
KK	✓	✓	✓		✓			
NSA							✓	
UNI		✓						
SG				✓	✓			
<b>TOTAL</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>8</b>	<b>11</b>	<b>1</b>	<b>2</b>	<b>1</b>

Source: Author's Own

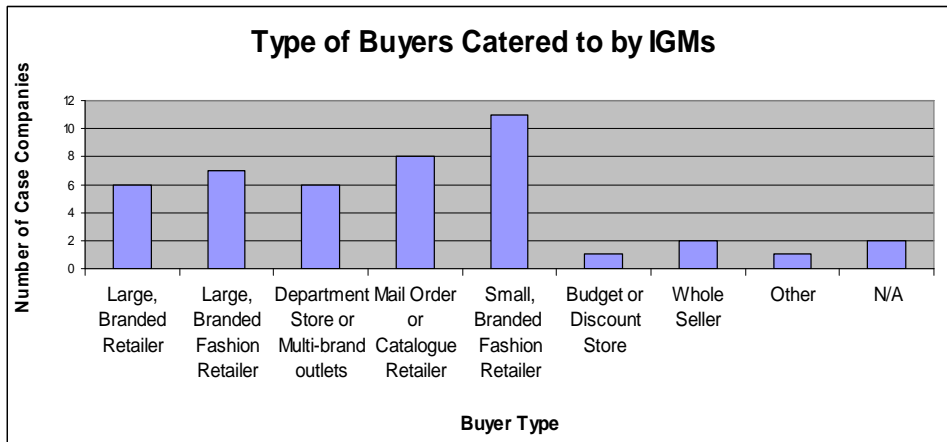
NB: n/a = not applicable

Table 23 presents the range of buyers that manufacturers feed into and gives an indication of the total number of firms that cater to various types of foreign buyers' production networks. Figure 22 charts the data graphically and thus enables further description of the findings.

Figure 22 indicates that most of the manufacturers in this study do not cater to the smaller budget or importer/wholesale type buyer. (In the case of those who do, specifically PF and NSA, these buyers cater to the less mature markets of the Middle East and North Africa, where quality and compliance standards are far less demanding than in the Western markets of the EU and US). What is also important to note at this stage is that many of the manufacturers suggest that they may cater to more than one type of buyer at any given time. For some, like KK and MI,

catering to more than one type of buyer allows them to reap the benefits from the manufacturing set-up that they carry.

Figure 22 Summary of most common buyer type that IGMs produce for



Source: Author's Own

### 5.7 GVC-Based Factors

This section investigates what factors help or hinder those Indian Garment Manufacturers (IGMs) that attempt to feed into the global production networks (GPNs) of large global retailers, or, as Global Value Chain (GVC) theorists label them, ‘the most significant lead firms’. The production networks of ‘lead firms’ constitute one of the main routes through which many IGMs in this study have accessed foreign markets and thus participated in international trade. Figure 22 shows that the production networks of the first two types of buyers – the large branded retailer and the large branded fashion retailer (both of which can be considered lead firms) – include 6 and 7 IGMs respectively. Thus, it becomes important to investigate what factors IGMs feel help or hinder their access to such lead firm buyers.

IGMs in this study supported GVC-based research by emphasising the need to fulfil two criteria as manufacturers to the larger lead buyer: being a compliant manufacturers and offering a full-package service. These pre-requisites are important for IGMs to have if they are to be considered for selection as manufacturers in ‘lead firms’ production networks. Both factors are

discussed below; the sub-themes that constitute these two factors, particularly the importance of being able to meet quality, price, and delivery (QPD) requirements are also discussed.

### 5.7.1 Compliance

Increasingly large retailers, such as Wal-Mart, GAP, and others that are based in mature Western markets such as the United States and Europe, demand certain codes of conduct are implemented and adhered to by manufacturers before they are considered eligible to participate in their production networks. This adherence to a particular set of pre-codified standards or regulations is known as compliance.

The standards can cover a variety of issues that over the years have come to concern retailers who are keen to be viewed as socially responsible companies, especially when under scrutiny of their customers and the greater public. Some of the compliance standards commonly discussed by IGMs in this study are listed in Table 24.

Table 24 Key issues covered by compliance

Standard	Issues Covered
<b>Labour Laws</b>	<i>Minimum wage; Working hours; Overtime payment; Child Labour; Sexual harassment.</i>
<b>Health and Safety Issues</b>	<i>Compliant factory premises, number of fire exits, cleanliness, house keeping, safety of machinery; protective wear, adequate lighting, adequate spacing between machinery.</i>
<b>Environmental Issues</b>	<i>Environmentally friendly dyes and chemicals, 3 R's: re-use, recycle and reduce.</i>
<b>Corporate Social Responsibility (CSR)</b>	<i>Fair working conditions: Provision of health care, provision of crèche, provision of onsite medical facility; adequate canteen area and lavatory facilities.</i>

Source: Author's Own

The standards could be in the form of internationally accredited standards set by international agencies such as ISO-9001 and SA-8000, but increasingly larger buyers like Wal-Mart and Gap have their own sets of standards to which suppliers have to comply. Normally this will involve investing in a complaint factory as well as adherence to labour laws and regulations set by the retailer, which are in accordance with national laws, and are likely to include extra regulations set by the retailer.

Such standards and codes of conduct have become crucial defining factors for many suppliers, including IGMs in this study, wanting to participate in the GPNs of these large retailers.

Of the 23 companies interviewed in this research, 19 considered themselves compliant. Although the extent of compliance varied, as those who catered to smaller buyers required only compliance to national laws, some manufacturers like LD, MI, KK, and others held compliance certifications for larger more demanding lead buyers.

Indian garment manufacturers participating in this research showed a mixed level of compliance implemented in their factories as well as voicing mixed opinions regarding the need for a compliant factory set up. Various issues raised during fieldwork regarding compliance will be dealt with in the subsequent sections.

### **5.7.2 Need for Compliance**

The need for compliance is especially emphasised for those manufacturers whose target buyers were large foreign retailers based in Western mature markets. This opinion was voiced unanimously across the 23 companies interviewed, regardless of whether or not the company themselves were compliant. A manufacturer owner who has a compliant factory comments:

Compliance in a company is a big thing, in fact I was surprised this was not the first question that you asked me, whether my factory is compliant...It is the most important thing today [*RL, Com1*].

Similarly, other manufacturers use phrases like “compliance is the need of the hour” [BK, Com1] and “compliance has become almost compulsory now” [NH, Com1] expressing the importance they place on being a compliant set-up.

Another manufacturer further explains the importance of compliance particularly in helping her company access specific international markets:

Our factory is compliant...Compliance is huge now, it's very big. I doubt we would even be able to survive without our complaint factory, because there was this particular company, a shop in Italy or...Another catalogue house in Holland, and they refused to work with us unless we had a compliant factory [*SG, Com1*].

### **5.7.3 Compliance determines level of risk associated with buyer**

One manufacturer explained that having a compliant set-up allows them to access only a certain type of buyer, the mature, Western buyer; working with buyers that did not necessarily seek a compliant factory would not be feasible for this manufacturer as he explain in the following quote:

Compliance is very important nowadays, very, very, especially in US and Europe...It costs a lot in both...The facilities and the space...I'll say compliant unit is 10% to 20% more expensive to a non-compliant unit...Overheads increase so you have to go to customers who are higher end...Why not go to UAE/Gulf market?...See I'll tell you; UAE has no comparison with US and Europe because the quantity is not that big, you really cannot depend on them, and no repeat purchases...We also know in Europe/US they have their own stores, so you know they have to keep buying...They [UAE] are more wholesaler kind and it's not very defined, whereas in Europe and US it's very defined...Like...JC Penny, they have their own stores, 2000, 3000...If they have to buy one style they have to buy like 50,000, 60,000...So quantities are assured...Here [UAE] that is not the show [*CG(b), Com1, Com2*].

There are a few points that are important to highlight from the comments made by this compliant factory owner, CG. Firstly, he suggests that compliant companies exist predominantly in Western markets, which are relatively more mature and much better 'defined' or organised

markets. Secondly, such markets have 'higher end' retailers, which he believes are those that are more credible because 'they have their own stores' and are thus likely to guarantee repeat business. He suggests, repeat business is a crucial factor for running a compliant factory, which has higher overheads and cannot deal with buyers who have an element of uncertainty in their demand for clothes, like those in the UAE [United Arab Emirates] and similar markets. However, in another manufacturer's opinion, Western market retailers are also risky:

[SI] today is a 100% compliant company...to an extent, which hurts you. Hurts you in the sense, I am compliant, you've come to me, you are a big company, I do everything for you, I keep the stage ready, I supply to you, suddenly somebody finds that another vendor is good, so you just simply drop me and walk away. So what am I going to do with all that?...The stage I have set for you, now that you don't want to have your shows here, what am I going to do with the stage? So that is how it hurts you [*SI, Com1*].

SI finds the footloose behaviour of these 'big companies' risky. He suggests that such buyers are likely to find an alternative vendor and "drop" them in favour of cheaper manufacturers. This was the main reason that one of his main British buyers "dropped" him and switched to an alternative supplier, making it difficult for him to meet the additional costs that he still had to bear for the upkeep and running of a compliant factory.

#### **5.7.4 Benefits of compliance**

Although most GVC studies suggest compliance is a hindrance, some companies in this study felt it could also benefit them in certain ways, for example by helping to attract more buyers seeking compliant manufacturers. The following manufacturer's positive view of compliance portrays the differences in firms' perceptions of what constitutes external challenges:

It is important to meet these compliance [rules] to attract foreign buyers, and it helps us access to other buyers, especially if Wal-Mart has given us compliance, then other [buyers] think 'they will have gone through the formalities, so we don't need to worry' [*MI(c), Com1*].

IGMs felt being compliant themselves earned them a sense of achievement and giving them confidence to approach new buyers, in addition to providing them with a yard stick by which to measure prospective buyers' credibility, as explains the following manufacturer:

The brands we work with are higher-end because they can afford to spend, because they need to adhere to social responsibility, so they also work with socially responsible factories...If my buyer doesn't come to visit my factory, I feel something fishy and get worried about them paying me...My payment may not come on time... Internationalisation of our business is through compliance...Always a good buyer will come visit the factory. A buyer knows what to do before they give me an order; they need to go and compliance the factory; they need to see their previous record with the apparel board and then they need to have a rapport for opening a LC [letter of credit] *[RL, Com2]*.

Furthermore, IGMs suggested that being a compliant company enhanced their reputation and ensured a smooth and better work environment in the long term in which workers thrived in terms of efficiency.

#### **5.7.5 Full-package manufacturing**

Most manufacturers in this study suggested that large lead buyers increasingly look for full packaged manufacturers, or 'one-stop shops,' as some like ME describe themselves to be on their web site. The concept of a full-package manufacturer is well known in GVC research: it "requires off-shore contractors to develop the capability to interpret designs, make samples, source the needed inputs, monitor product quality, meet buyer's price and guarantee on-time delivery [QPD]" (Gereffi et al., 2005: 92). Most manufacturers in this study with the exception of NSA and PF offer such services.

However, it is not always easy for manufacturers to offer the requirement of timely delivery and price, which is due mostly to contextual factors related to poor infrastructure, discussed later in this chapter. Not being able to meet such requirements can often result in great losses for the manufacturer; if quality falters, then shipments are returned, and if timely deliveries are not made, again shipments are returned, often with penalties from the buyers for untimely deliveries, due to loss of sales on their part.

On the other hand, it is also true some domestic contextual factors are beneficial, such as India having a fully integrated supply chain for the production of cotton garments; India is the second largest producer of raw cotton in the world and the site of a large and well-developed fabric manufacturing industry. Such beneficial domestic factors have helped boost IGMs' competitiveness in sourcing quality raw materials and inputs within India, which in turn helps, to some extent, cut down lead times.

## **5.8 International Context**

Various case manufacturers in this study, when questioned about factors affecting their decision to access foreign markets and buyers suggest issues that are concerned with the international context. The sub-factors that make up the international context are predominantly barriers that hinder IGMs access to foreign markets. However, unexpectedly, certain factors such as competition from international competitors, such as China, although not viewed as helpful, were not viewed as a major barrier to IGMs ability to gain access and preference in foreign markets. We now briefly discuss the various factors IGMs' felt hindered their progress in accessing certain markets and buyers, including currency risk, Regional Trade Agreements, and foreign-based competition.

### **5.8.1 Rupee appreciation**

Most manufacturers in this study bill their foreign clients in dollars, as it is the preferred method of payment allowing for easy comparability between clients and for buyers seeking price comparisons across their suppliers; even when catering to European buyers most take dollar payments. Thus, the dollar exchange rate against the Indian Rupee constitutes an important factor in the competitiveness of the IGM. At the time of interviewing the Indian export industry, in particular the textiles and garment industry had been hard hit by sudden and relatively steep exchange rate fluctuations, affecting IGMs' competitiveness in international markets. AB & K Research Report (2007: 9) on the textiles sector supports that the rupee had appreciated against the dollar by 16% since September 2006. This appreciation is considered a steep rise in what is a short time period, and as a result, textile exports are expected to fall short of their target of US\$ 25.0 billion, as exports were expected to reach US\$ 21.0 billion by 2008. In particular, the report



emphasises that it is exports in garments, which account for 45% of total textile exports, which are witnessing a shortfall.

### 5.8.2 International competitors: The China factor and cost-based competitors

The Garment industry is a highly competitive and volatile industry. New lower-cost manufacturing sites emerge constantly. Garment production is a prime industry in most newly industrialising economies since it requires minimal, initial start-up, capital investments. China, in particular, constitutes the largest exporter of ready-made garments in the world. China's rapid development and sustained position as the world's top exporter of garments is a result of consistently increasing their market share of world exports. This could pose a very real threat for other garment producing countries, like India. In particular, China's abundance of cheap labour and huge scales of operations outstrip other countries production capacities making China highly price competitive compared to their counterparts in other countries. Thus, it was important to determine whether China and other competitor countries posed a significant threat to IGMs and their internationalisation access prospects into foreign markets.

Interestingly, IGMs in this study have a sanguine attitude towards competition in general. China did not pose a direct or prominent threat to many IGMs. IGMs gave three common reasons for their relaxed attitude towards Chinese manufacturers and the possibility of them posing a threat to their own business activities; these are summarised in Table 25 and discussed subsequently.

Table 25 Why China is not considered a major threat to IGMs

<b>Reasons Why China is Not Considered a Direct Threat</b>	
<b>1</b>	<i>Chinese manufacturers deal with a standard product unlike IGMs.</i>
<b>2</b>	<i>Buyers tend to adopt a risk diversification strategy.</i>
<b>3</b>	<i>Quality of Chinese products and inputs are different and in some cases lower to Indian products.</i>

The first common reason expressed by IGMs as to why China is not seen as a threat is due to both countries' manufacturers' preponderance to catering to certain types of buyers. The Chinese prefer to deal with large retailers ordering mass quantities of a standard product, as this suits their large factory set-ups that require mass runs in order to cover the larger overhead costs. IGMs, in contrast, prefer the smaller more fashion conscious buyers who require flexible factory

set-ups for small batch production. The clothes are more stylised, require detailing, and design content.

The second reason IGMs do not consider China a major threat is based on their knowledge of buyers' needs to diversify their risk by spreading their production requirements across a number of manufacturing countries.

The third factor manufacturers felt distinguished India from China was the type of inputs used and the general quality and design content of products offered, where they believed India has the upper hand.

However, there were manufacturers in this study who put forward various other factors, like price, government subsidies, better quality of technology and infrastructure, and labour issues that make China more competitive than India.

Others do not talk about China as competition but instead mention neighbouring countries such as Bangladesh, Sri-Lanka and Pakistan as their primary competitors. These countries are not only cost-competitive but have better manufacturing facilities due to access to government subsidies. In some cases, alternative producer countries, like Turkey and Romania, have the advantage of being geographically proximate to buyers markets than does India, which helps with delivery times and thus are preferred by buyers who work in fashion forward industries where delivery times are crucial.

### **5.8.3 Regional Trade Agreements (RTAs)**

India's lack of membership of any serious or beneficial Regional Trade Agreement (RTA) was a factor hindering the majority of IGMs competitiveness and access to key markets. Lack of such agreements results in missed opportunities gained when entering into such RTAs, as well as renders IGMs as less competitive compared with manufacturers whose countries were members of RTAs. For example, the North- and Central- American Free Trade Agreements (NAFTA, CAFTA, or as recently amended, DR-CAFTA) include the member countries of Mexico, Dominican Republic, Costa Rica, El Salvador, Guatemala, Nicaragua, and Honduras. These countries' goods enjoy duty-free access into North America and in some cases Canada. To

IGMs, such bi-lateral regional agreements pose a barrier to entry for their apparel. IGMs wanting to access North America as a potential market would find their goods more expensive and therefore less price competitive. Thus, IGMs need to further increase their efficiency levels, and after a certain point, regardless of increased investments and efforts, their prices would be deemed less competitive. In such situations, Indian manufacturers have also been known to work on negative profits.

India is a member of one key RTA, The South Asian Association for Regional Cooperation (SAARC). Other SAARC member countries include the seven South Asian countries of Nepal, Maldives, Sri-Lanka, Pakistan, Bangladesh, Bhutan and more recently, in 2007, Afghanistan. One of the main objectives of the association as defined in the Charter is “to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields” between member countries. There seems to be no special emphasis placed on ‘trade’ as an objective and a number of manufacturers and a NIFT professor suggested SAARC has not really engendered trade between member countries.

However, it could be argued that IGMs could take advantage of RTAs that they are not members of by setting up manufacturing units within those regions and countries that do benefit from RTA’s. Countries in Africa who are members of the African Growth Opportunity Act (AGOA), where goods exported from AGOA member countries have “liberal access to the US market” ([www.agoa.gov](http://www.agoa.gov)), could be considered by IGMs as manufacturing sites in which to setup their factories in and thus export from. However, most manufacturers were reluctant to accept such a proposition as being beneficial to them. Various reasons for not considering such an option were given by IGMs. These ranged from manufacturers lack of familiarity with foreign work practices, to suggesting it would be more hassle than gain to set up a site in such countries, as the countries were unable to effectively cater to the needs of garment producers due to their under-developed supply chains, which would require the producer to depend on imported raw materials.

## **5.9 Domestic Context**

The context within which firms operate shapes their decisions and therefore must be considered when investigating factors that aid or hinder the internationalisation access patterns of IGMs.

This section specifically highlights the impact of the domestic context and its effects on IGMs' international access prospects. The domestic context can be broken down into firm-specific factors and industry factors. Each category will be individually discussed in the sections below.

## **5.10 Firm-specific factors**

Five types of firm-specific factors that influence IGMs decision to access foreign markets emerged from the data. The first is the risk perceptions of the individual firms' owners, which are shaped in turn by the world-view of the individual owner or key decision maker. The second factor investigates the concept of 'growing with the customer' where IGMs prefer to cater to the growing needs of their current buyers' rather than predominantly searching for new buyers to expand their customer base. The third set of factors is related to the firm's structure (e.g. its production scale, level of integration, and the character of its management), and the fourth set of factors consists of product price structures which influence firms' foreign market access decisions. The fifth set of factors looks at various practical considerations constraining the firm's options. All five factors play a role in shaping access decisions and activities of IGMs. These factors are discussed below; although presented individually it is important to note that the factors are not mutually exclusive, but in many cases interlinked.

### **5.10.1 Risk Perceptions**

The disposition of individual IGM entrepreneurs towards risk seems to vary, some being more risk averse, others being less so and others possibly even being risk seekers. These varying dispositions towards risk affect their attitudes and activities in different ways and thus impact on the decisions they take in terms of which markets to approach and what types of buyer they feel would suit their work practices and ethos better. Risk also affects entrepreneurs' approaches to circumstances prevalent in the market place, so that what one entrepreneur may view as an opportunity may be viewed by another as a threat. There are two conceptions of risk exhibited by IGMs that hinder their decision to internationalise and are associated with the market type and buyer type, as is discussed below.

### ***Risk Associated with Market Type***

When considering what markets to enter or do business in, IGMs assign different levels of risk, and are less likely to venture into those markets they deem risky. IGMs perception of the risk associated with a specific foreign market is based on the market's level of maturity combined with firm-specific factors such as the structure or set-up of the IGMs factory (another set of issues addressed below). Therefore, a particular foreign market considered an opportunity by one manufacturer, is seen as a risk by another, due to their differing factory set-ups (as a manufacturer may consider her/his set-up not appropriate or capable of dealing with a certain type of buyers' needs and requirements). Market risk is discussed in greater depth in the next chapter, Chapter 6.

### ***Risk Associated with Buyer Type***

In a similar vein to market risk, IGMs carry different perceptions of risk when it comes to the different categories of buyers that are available to them to do business with and with which they choose to interact. These varying levels of risk lead local manufacturers in some cases to rank buyers and to limit their clientele to specific kinds of buyers, whom they deem as less risky and more suitable to their work practices and capabilities, sometimes avoiding even certain groups of international buyers to whom they have open access channels. The buyers are categorised by the product type that they retail. Some buyers are fashion retailers, whilst others are retailers of standard goods. The decision regarding which buyer to cater to is subject to an important selection process; otherwise, manufacturers risk the possibility of failing to cater to the buyers' needs, which can lead to return shipment of goods, a costly outcome. Buyer risk is closely related to product risk, which is also discussed in detail in Section 3 of this chapter, on the upgrading practices of IGMs.

#### **5.10.2 Time-Horizons: Growing with the customer**

A common theme voiced by IGMs in this study, regarding accessing foreign buyers, was the concept of "growing with the customer." In effect, manufacturers are more comfortable seeking buyers who are likely to be long-term clients rather than those who are footloose and have an attitude of short-termism. Thus, it was common for manufacturers to vet the buyers they worked with and to find buyers that suited their business ethos, work practices, and requirements better. In this sense, manufacturers put self-imposed restrictions on the types of buyers they were

willing to do business with, which has nothing to do with whether or not the buyers themselves were prepared to do business with the manufacturer. The following comments suggest this idea of growing with the buyer and its links to setting long-term time horizons by which to assess buyers:

*One of the largest knit wear producers in India-*

We are not actively looking for buyers, we want to grow with existing buyers, give them a fuller service, offer them multiple products within the apparel segment. So once you have 7 to 8 good buyers world-wide the idea is to grow more with them, cater more to their needs; rather than offer them one product [category e.g. just men's shirts], offer them more than one product [category, e.g. men's and women's shorts] **[KK, MA1]**.

*Medium sized trouser manufacturer-*

We are not looking for discounters; they are opportunists and have no loyalty to you. ... We are looking to build long-term relationships with our buyers **[KI, BT1]**.

*Small woven manufacturer for small branded fashion buyers-*

I don't participate in fairs because I don't want just anybody walking in and dealing with me...I would rather find out who is doing well, check the reputation of the company, then go, and approach the buyer...The questions I ask for the buyers I approach are: first, is their brand a popular brand, so you know the business is good for the brand...[and] reflects continued customership on a long-term basis. Secondly, reputation of the particular brand from the market; i.e., is it a reliable company? E.g., payments, e.g., I don't have a client in Italy; they can pull the rug from under your feet, they are smooth talkers...What happens is once you make your initial contacts, initial customers, then you grow with them. For example, I was dealing with Pepe Jeans for maybe 14/15 years, until the time that they sold out...How you can grow with the customer? (a) Honesty, (b) quality and (c) timely delivery, these are the main criteria **[TI, BT1/2]**.

Combining the concept of 'risk' with the idea of "growing with the customer" helps better explain why IGMs choose to work with particular types of buyers over others. The fact that many of the IGMs in this study felt more comfortable establishing long-term business

relationships with their buyers could be interpreted as an adverse reaction to their perception of the risk of working on a short-term basis. IGMs may be trying to diminish risk in their daily business environment by establishing longer-term relationships, which provides them with greater stability in what can be considered an already volatile industry.

This interpretation can be further supported by additional comments from manufacturers who depict the price pressures they face when working with larger buyers who pursue high-volume sales of standardized goods and who work with a very short-term perspective. Such buyers are considered footloose, constantly in search of cheaper producers, dropping one in favour of another depending on whoever offers the cheaper price, thus adding to the insecure nature of the industry. Some manufacturers even talk about buyers operating auctions where they engage various suppliers from different international markets to bid for a consignment, and the cheapest quoted price wins the rights to manufacture the consignment. IGMs feel such practices are difficult for them to work with and cater to, as domestic conditions prevalent in India are not conducive to operating on a low-cost production strategy where price is the main criteria. Factors such as comparatively expensive power supply, inflexible labour laws and comparatively high labour costs make it difficult to work as a low-cost producer in India.

Comments from manufacturers further suggest that establishing lasting relationships means they are more likely to be able to learn the requirements of individual clients and service them better as a result than if they were to change clients constantly and start again with each new client that they work with.

### **5.10.3 Structure**

Structure as a factor seems to play a crucial role in influencing the choices undertaken by Indian manufacturers accessing foreign markets and buyers. The findings suggest three areas of structure of particular relevance, summarized in Table 26. Each will be discussed in turn.

Table 26 Dimensions of structure

<b>Varying Dimensions of the concept of ‘Structure’</b>	
<b>1</b>	<i>Scale of Production Unit and Choice of Factory Size</i>
<b>2</b>	<i>Level of Integration of the factory: Fully integrated, Semi-integrated or Stand Alone (pure Cut, Manufacture, Trim -CMT- operation)</i>
<b>3</b>	<i>Firm’s Management Structure: Family run firm Vs Professionally run firm</i>

***Scale of Production Unit, Factory Size***

The first structural factor is the actual scale of production that an IGM is able to cater to. Manufacturers vary in terms of the type of buyer their factory set-up can cater to. Some prefer buyers like Wal-Mart who produce huge volumes, while others prefer buyers who place smaller orders, as is evident from the comments of various producers below:

We prefer [a] buyer who can give me volume, as we have that kind of infrastructure, we prefer the budget buyer **[LD, BT1]**.

We...Do...Only one person in America, for organic clothing, otherwise I cannot handle America, I'm not big enough, in America the volumes are too high...The type of buyers I look for are small to medium fashion buyers...Operations in US, they will come with one basic style and they require 70,000 pieces in 90 days flat, we just don't have the capacity for them...We prefer stores, fashion retailers; they are more specific and they have orders on hand, not wholesalers who are sourcing from a 'n' number of vendors and tend to cheat us in price...The fashion retailers pay a higher premium **[KL, BT1 ]**.

These comments illustrate how the scale of production determines the type of buyers IGMs prefer to cater for. The manufacturers also look at buyers’ pricing strategy (this is discussed below). Another important point is whether manufacturers are willing to scale up their production in order to access the large volume buyers. It is possible that the investment required to scale up is infeasible for many manufacturers, but this is not what the manufacturers themselves say. IGMs offer different reasons for not wanting to scale up, which are discussed in Section 3 of this chapter, regarding upgrading activities.



### ***Level of Integration***

The second structural factor raised by IGMs as an issue is the level to which a manufacturer operates an integrated factory set-up. Specifically, this referring to the number of production functions that comprise the apparel manufacturing chain is included in a manufacturer's operations. Thus, a fully integrated manufacturer will internalise all parts of the supply chain from the production of raw cotton to the spinning of cotton yarn to the manufacture of fabrics, processing of fabrics, design of garments, CMT (cut make and trim) of garments, labelling and packaging of the garment to the final shipment of the garment. There are four set-up levels identified by this study that IGMs operate under these are summarised in Table 27.

Most of the manufacturers interviewed in this study fall under the semi, vertically integrated category. For example, out of the 23 companies only four (CG, KK, SI and MI) could be considered companies that come close as being a fully integrated set-up. Such highly integrated manufacturers have comparatively larger scale set-ups (normally a requisite as many operations like dyeing units need to be operated on a certain scale to be economically viable) than the other manufacturers in this sample.

The level of integration a company supports seems to play a pivotal role in attracting and retaining foreign buyers, especially well known lead firms. IGMs believe that buyers see fully-integrated set-ups as a good indication of supplier capabilities, both in terms of quality and delivery times, as is suggested by the following comments:

We were never serious [that] we should get into manufacture of fabrics, but the impression we need to give is to have a vertical unit to the buyer; so you need your profile, and when you send your profile to JC Penny or Wal-Mart you have remarks on it: 'Oh, this company has a dyeing unit, an embroidery unit etc.' This does not in practice help, but helps to show a vertical set-up [***LD, INTm1***].

Another manufacturer further confirms the importance buyers place on having an integrated set-up, suggesting that to attract and retain large buyers integrated set-ups are necessary, as buyers favour this over non-integrated manufacturers:

Not having a fully integrated set-up absolutely affects me...For example, customers like Zara went to larger mills with fully-vertical integrated set-ups; they would compare me with them and say 'how can you satisfy us?'...They said...'these are better companies', so

they left, even though I told them I am doing business with you for 10 years and have you had any problems?...But they still left...But they came back a couple of years later...They have realised a fully integrated plant is not necessary. ...But other companies [buyers] still think it is necessary [NH, INTm1].

Table 27 Typology of level of integration

	Structure Type	Characteristics	No. of IGMs Who Fall Under a Particular Structure
1	<i>Fully-integrated set-up or vertical unit, also referred to as a full-packaged supplier</i>	All the various stages of a garment manufacturing supply and production chain (including spinning of yarn, weaving or knitting of fabric, CMT, dyeing, washing, embroidery, finishing, packaging and shipment) take place within one company.	'0' (Although many may in the Indian market feel that they are full-packaged suppliers as they will handle the packing and shipment of the final product)
2	<i>Semi-integrated set-up or semi-vertical unit</i>	The company will operate at various degrees of integration, wherein some will operate in two or more stages of the supply chain whilst others may participate in more	'7' (possibly 8- as company KK uses structure 4 as well as structure 2)
3	<i>CMT (Cut, Manufacture, and Trim) or assembly</i>	In such a set-up only the basic manufacturing, assembly stage of the garment takes place.	'3'
4	<i>Labour and asset light model</i>	Management of factory is outsourced. In some cases ownership of factory is clearly stated; in others it is not in the manufacturer's name	'4' (possibly 5-as company KK uses structure 2 as well as structure 4)

Source: Author's Own

The preference for integrated set-ups is because manufacturers who carry out all operations in-house retain greater control over the various functions within the value chain, and therefore are able to closely monitor the output quality. Manufacturers in this study who operate integrated set-ups also support this perception held by buyers:

Having a fully integrated set-up helps us in mainly two ways: firstly, quality, we have more control over quality because at every stage you are involved, and secondly delivery, you are at the mercy of a third party person if you are dependant on outsiders; over here you are responsible for your own so you can prioritise and do the needful [KK, INTm1].

What prevents Indian garment manufacturers from scaling up or upgrading their factories to incorporate the varied functions within the manufacturing chain and becoming fully integrated producers? The findings seem to reveal that several firm-specific and contextual factors affect the Indian manufacturers' decision about doing so; these will be dealt with in the next chapter, in the discussion of upgrading.

***Management setup: Family versus Professional management setup***

When considering the management structure of the company, IGMs are predominantly family-run businesses. In a typical family business, different family members are assigned to different tasks; normally each will be the main manager responsible for a particular function, as is suggested by the following comments:

I am actually the owner of the company. It's a partnership firm. There are three partners; that is, my two sisters and me, but they are not involved in the business at all...sleeping partners...So my role is actively looking after the design, finance, the banking, the sampling, [and] administration, but the actual production is looked after by my brother-in-law...He is a kind of CEO" [SG, OWST1].

It is me who is looking after marketing, then my partner...looks after production and I have another two family members who are in the production. My son is also in the business, my daughter-in-law is in the business, she is the designer, and my wife is also in my business, but she is in [the] accounts department. In all the key positions I have my family members [NH, OWST1].

However, some IGMs have stated that many of the larger well-known branded buyers like to see firms that are more professionally managed [NH suggests this below in his comments; others like KK and MI have also alluded to the benefits buyers perceive in dealing with a professionally managed producer]. Running a professionally managed firm reassures buyers of suppliers' abilities and capabilities in terms of meeting delivery times as well as fulfilling quality requirements, both important criteria for the branded, fashion-oriented buyer.

Thus, a dissonance arises between manufacturers' business management practices and buyers' preferences in terms of management practices. Despite realising this difference, manufacturers are reluctant to change from the family business model and bring in professionals. This is in part because a closely held family business allows them to retain control and in part because of the

high attrition rate of management-level professionals complained about by other manufacturers. IGMs suggest hired management is less loyal than family members are:

I have survived because I have a lot of family members in my company, so it is not a professionally managed company, but it is a personal partnership...At one point of time my customers...were not happy with my management. When they went to big companies they said, 'Oh, they are very professional and you are not.'...Now they have realised that personal involvement of everybody or of family members does help for this kind of industry...In all the key positions I have my family members; that is my strength in fact...When [buyers] compare me with bigger companies they feel it is not professional looking, but now they have agreed for India, and for this kind of industry, this kind of setup is more effective...It's because you might get people, but they keep jumping job to job, my family members...are not going to leave me, and one more thing I'll tell you are that three people, they are not related, but my friend's children or whatever, my friend even, I have brought to the company, I offered them partnership and they are in key positions, so basically I get the loyalty from everybody, it's a team, loyal and efficient team [*NH, OWSTI*].

The above manufacturer, NH, discusses the issue of buyers preferring professionally run firms, and attributes this to a lack of loyalty from externally hired management. High management turnover rates demonstrate the lack of loyalty from externally hired management resulting in NH stressing the importance of the role of the family in managing the company. On the other hand, the viewpoint from trained Indian managerial professionals is illustrated in a comment made in an interview, by a NIFT (National Institute of Fashion Technology) professor. The professor suggests that although his institute turned out the highest number of graduates at management level professionals for the apparel industry, many graduates were reluctant to seek jobs with IGMs, as they tended to be family run business in comparison to the more professionally run domestic retail sector:

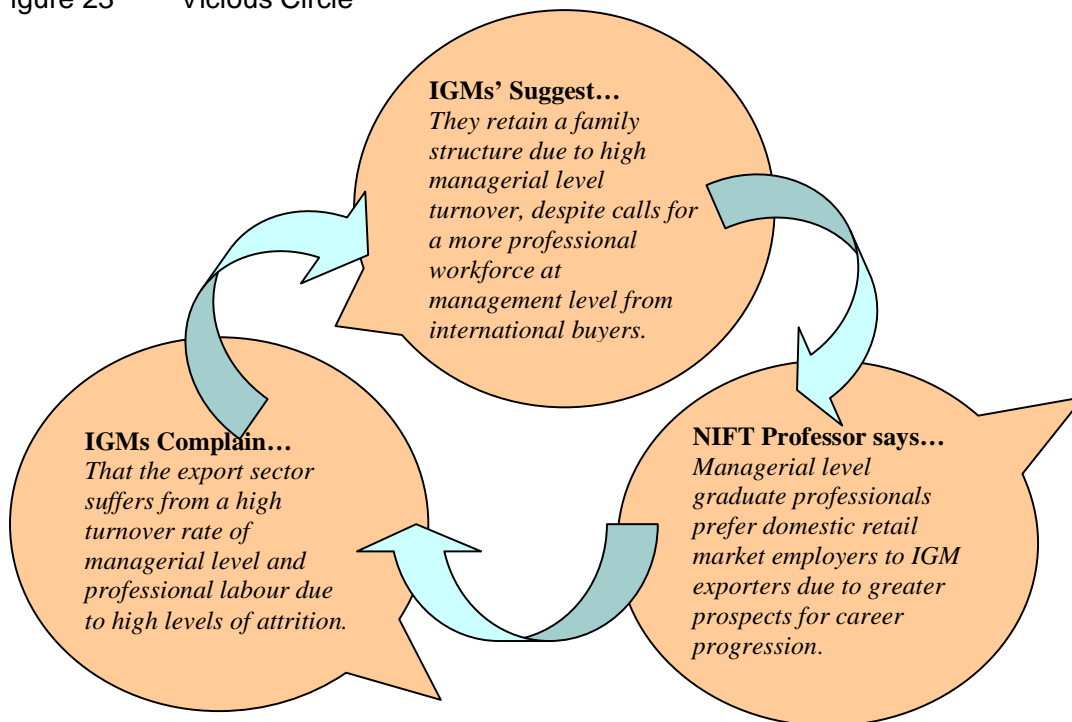
The manpower requirement in the export industry is also getting affected due to our retail industry. Today the retail industry offers a corporate culture. It's a white collar job for managers, so whereas in the case of the export industry the working environment is such that people don't want to take up jobs...this placement [job fair organised by NIFT], this time round there were...many export companies, but students were not going there. The companies [IGMs] were telling us that we don't have any fashion professionals this time; all the

students wanted to take jobs in retail in the domestic industry, but nobody wants to go into the exports...This is one of the biggest problems that the export companies are facing...They will get [people applying for jobs] in the operator, tailor, and supervisor level, but not in the managerial level. In order to do that, to attract people, they will have to improve upon their working environment. If you look at a typical export industry, most of the export industries [companies] are family orientated, it's a family business, so mother is a designer, father is...manager of [the] production unit, brother is looking after the marketing or merchandising part, so where is the growth for the professionals? The students have also realised this is a problem with this area [export sector], so let us not go into the export industry [Prof1, Emp1].

The above comments present a triangulated view using various sources and describe the impact of high managerial-level turnover on IGMs' access to certain types of buyers.

Figure 23 combines these views to illustrate how they form a vicious circle in which IGMs find themselves trapped.

Figure 23 Vicious Circle



Source: Author's Own

Some manufacturers, predominantly the larger ones such as KK and MI, have been able to strike a balance between having professionally managed people working for them, despite remaining very much a family held company. Once again, company size seems to matter, in that larger companies are able to pay the type of management salaries or promotion salaries that help with retention of professional employees. Conversely, smaller firms find it difficult to offer attractive remuneration packages and opportunities for career progression due to financial constraints and limitations as suggested by BK, SG, KI and others.

#### **5.10.4 Price Structures**

Manufacturers have also suggested approaching and targeting buyers that give them better prices per garment. These tend rather to be the smaller, fashion-oriented buyers than the mass retailers, as is suggested by the following comments:

*Small manufacturer of men's and ladies' undergarments*

We prefer upmarket retailers because they give you costing...We don't like price sensitive retailers **[MT, BT1]**.

*Medium manufacturer of woven garments*

Catalogue stores...are not buying in quantities. They buy limited styles and limited pieces, per style, say 1500 pieces...[We] prefer catalogue stores because they have got limited pieces and they have good rates, [the] main thing is the rates only...Retailers... have got all over the chain stores, all over the USA, say maybe 1000 or 900, and if we approach [a] retailer we may not cope [with] their requirement, because our capacity is 30,000 to 25,000 total **[KL, BT1]**.

What is interesting to note from the second manufacturer's comments is that price structures are closely tied to the volumes and scale of manufacturing operation. Various other manufacturers have also confirmed this tie by suggesting that their factory set-up caters better to large volume retailers. What this ultimately implies is not necessarily price or volumes as contributory factors but the scale of operation and factory set-up that the manufacturer operates under that determines the type of buyer that best fits IGMs operational set-up.

### 5.10.5 Practical considerations

Many IGMs do not necessarily seek out markets or buyers, as they are reluctant to expand into new markets for practical reasons. One such consideration found to be common is the difficulty of catering to different markets in different countries, as all markets vary in tastes, and with limited resources constrains IGMs ability to hire people who are able to interpret all the various designs and needs of varying customers, it is difficult to cater to many international markets. They felt it was better ‘to grow with a few key buyers’ than constantly seek new ones and spread oneself too thin. It seems that it is easier for IGMs to expand their product range to cater more effectively to the existing set of buyers than to increase their international exposure to different international markets. International exposure becomes difficult, as manufacturers need to be able to forecast and keep track of the different trends and styles in the various markets they cater for thus creating room for error due to “spreading themselves too thin” [TI, MA1].

## 5.11 Industry specific factors

Another set of factors that constitute the domestic context are industry specific factors. Industry specific factors that affect IGMs access to international markets can be further broken down into four main sub-factors, summarised in Table 28; these are discussed in turn.

Table 28 Summary of Industry Factors

	<b>Summary of Industry Specific Factors</b>
<b>1</b>	<i>Regulatory issues</i>
<b>2</b>	<i>Government Policies and Incentives</i>
<b>3</b>	<i>Infrastructure</i>
<b>4</b>	<i>Domestic Retail Market</i>

*Source: Author's Own*

### 5.11.1 Regulatory issues

The two main national laws that indirectly affect the IGMs access to foreign markets are India's labour laws and factory laws. As is discussed below the problems with these laws make

manufacturers inefficient and hurt their competitiveness when compared to other manufacturing countries.

The rigidity of the Indian labour policies has been an issue for the garment industry for some time. This is evident from textiles and garment industry reports and literature dating back since the late 1980's and early 1990's that propose a relaxation of labour laws (BBC News, 2005a, b). The argument has always been that in contrast to other garment manufacturing countries India's labour policies are highly inflexible. Furthermore, in a highly price sensitive and volatile industry like the garment industry, where seasonal changes affect the demand of garments, the necessity to have a flexible workforce becomes crucial. In particular, manufacturers complain that the inability to lay off workers causes problems and breeds inefficiencies amongst workers. Regulations also prevent manufacturers attaining efficient scale of production.

Chinese factories typically have one large production centre, wherein all the functions of the manufacturing chain are undertaken under one roof. This is not the case in India. A large manufacturer, CG, who has an integrated set-up, runs an operation with factories spread over 22 different sub-units due to the problems he would encounter if they were to be merged into a single unit. Thus if manufacturers in India are deterred from creating large factory set-ups, they also cannot cater to the volume buyer.

Additionally labour policy continues to riddle the Indian garment industry with problems in realising cluster benefits. An emergent trend amongst larger manufacturers has been to setup factories in remote locations and extricate themselves from clusters, making it not only easier to train labour force afresh but also to retain them. Due to the remote sites where the factories are set up it makes it difficult for labour to easily relocate or find alternative work. Using this relocation strategy companies have attempted to curb high attrition rates amongst their labour forces, an inimical result of cluster type set-ups which have been further bolstered by excessively pro-labour laws.

TWW located her factory in a remote part of Gujarat where there are neither cluster benefits nor labour benefits. Similarly, NH recounted that a colleague of theirs with a larger setup had relocated their factory in a remote location for similar reasons as discussed above.



The CRISIL report (2003), aimed at helping to understand what would increase efficiency amongst IGMs proposed “dismantling archaic labour policies” wherein they suggest that “a competitive environment presupposes nimble responses that require labour policies to be in tune with market requirements.”

In a series of articles for BBC News (2006, 2005b) regarding ‘Why India’s Labour Laws are a Problem’ and ‘Why India Needs Labour Reforms’ Professor Basu comments:

Most of India’s labour laws were crafted with scant respect for ‘market response’... in a poor country no one with any sensitivity wants workers to lose their jobs, so what does one do? The instinct is to make it difficult to layoff workers. That is exactly what India’s Industrial Dispute Act, 1947 did [*Basu, 2005*].

In particular, he indicates that the amendment of the Act in the mid-1980s saw that “any firm employing more than 100 workers needs to get permission from the state government before retrenching workers (and in practice that permission is seldom given)” (BBC News, 2006 ).

He further explicates that in today’s globally integrated world where demand is volatile and constantly shifting Indian firms have responded to the act by keeping the labour forces as small as possible (BBC News, 2006).

The above observations suggest a strong relationship between the low labour productivity in India and its excessively pro-labour policies. In effect IGMs suggest such policies have bred a culture of complacent workers who know that the quality or efficiency of their work has little or no bearing on their employment prospects as they are afforded a high degree of job security, an opinion and frustration voiced by many of the manufacturers interviewed for this research.

### **5.11.2 Government policies and incentives**

The Indian government of India is recognised as taking up and executing initiatives to support their domestic industries, which has directly or indirectly affected IGMs in various areas. These range from technology upgrading schemes (TUFs) to Export Processing Zones (EPZs) and apparel parks, as well as National Institutes of Technology (NIFT) and Apparel Training and

Design Centres (ATDC). These are examined briefly in this section. The consensus that emerges is that the effectiveness of these various schemes and investments vary greatly, some initiatives having had a profound impact and others very little, in supporting the international activities of IGMs.

For example, the companies in this study have reported a very mixed attitude towards Indian SEZs. Many were unaware that SEZs were operational or existed. Others seem sceptical as to their usefulness and are reluctant to re-locate in an SEZ, with very few holding a positive opinion of SEZs. Many feel SEZs are set up in 'non-viable locations' making it difficult for companies to be close to source basic needs for their factories. This is partially due to the government's attempt at bolstering employment in remote regions or low employment areas. SEZs in India face another major issue. Disputes regarding the allocation of what is normally considered prime agricultural land create much delay in setting-up SEZs. The allocation of land for SEZ is for this reason far smaller than in countries like China and Mexico. The Financial Daily (2003) suggests size is an important factor in the success of Chinese SEZs as it enables the requisite infrastructure and services to be located and built in the same area. Thus, Chinese SEZs are over 1000 hectares (a minimum recommended area), compared to India's largest which is 310 hectares, too small an area for the requisite infrastructure etc to be built in.

### ***Apparel Parks***

Apparel parks seem to be an alternative solution to SEZs, and seemed to have been a more popular concept. A NIFT professor explains:

Apparel park is a concept wherein a few (let us call it) acres of land you will have all the facilities which are required by a garment manufacturer e.g. there would be spinning mills, weaving mills, processing units, there would be trim manufacturers- it's like a cluster where you will have an entire supply chain as such. So a garment manufacturer who needs a special type of fabric don't need to move out of that cluster he will immediately give an order and within a short period of time...and so it will reduce lead time also, he will get the fabric he will get the accessories required to manufacture he will also have a dyeing unit there so the entire, in that unit, a final product comes out without going out of the cluster...SEZ is basically there is no taxes also and you are limited to manufacture goods for exports only whereas here [in apparel parks] you can also work for the domestic market and do both, so that is the basic difference [between SEZs and apparel parks] *[Prof1, SEZI]*.

Apparel parks seem a more successful than SEZ, as the benefits derived seem to be far greater, since companies benefit from having their supplier base in near proximity. However, none of the IGMs in this study are aware of such parks, nor has any one of them located in such a park, despite the NIFT academics and industry heads (NIFT Prof1 and PNT) having positively commented on the model.

### ***TUFS***

TUFS (Technology Upgradation Fund Scheme) is a scheme that was set up by the government in collaboration with the textiles sector on 1st April 1999. The TUF scheme was intended to encourage and boost the technology upgrading capabilities of Indian textile and garment producers by making funds or loans available to them at low rates through the provision of capital and interest subsidies. The main aim was to boost modernization of the industry, as a common and reoccurring complaint associated with the Indian garmenting industry was the use of obsolete and outdated machinery (CIT, 2006).

Additionally, the industry depends heavily on expensive imported machinery. Over 70% of machinery is imported, thus the incentives offered under TUFS are important means of offsetting costs for producers who otherwise are discouraged to consistently upgrade machinery and therefore fall behind in terms of up-to-date technology use (CIT, 2006). However, only one manufacturer in this study, manufacturer MI, actually makes use of TUFS.

Two NIFT professors discussed reasons for the slow uptake of the TUF scheme by Indian garment manufacturers. They suggest manufacturers are reluctant to modernise their machinery as they feel they can adequately cater to the needs of their buyers with their obsolete equipment. They see this as a shortsighted approach and ascribe it to the domination of the industry by entrepreneurs who are growing old. Some companies studied here (such as MI and KK, who have forward integrated from manufacture of fabric to manufacture of garments) have modernised, and in these cases it is indeed the son or daughter of the original founder who has taken these steps

### ***NIFT, ATDC & Training***

In 1986 the Ministry of Textiles setup the independent body National Institute of Technology (NIFT)<sup>7</sup> in Delhi. Since then 12 campuses have been implemented in the key metropolitan cities including Mumbai, Kolkata, Bangalore, Hyderabad, and Chennai amongst others, with one international centre in Mauritius. As stated in the NIFT prospectus (2001: 4) “the prime objective of this institute is to assist the apparel fashion industry in meeting the industrial competitiveness on a global plane.”

The fashion-orientated manufacturers in this study boast that they use the best designers, NIFT graduates or ‘Niftians’. In general, most IGMs had a very high opinion of the benefits of employing a NIFT graduate.

The government also created the Apparel Training and Design Centre (ATDC), which provides training for operators, tailors and supervisors. However, unlike NIFT it is not viewed as being entirely successful. The IGMs studied felt there was a need for more such training centres, but also suggested that capacities within the centres were in certain respects inadequate or not in keeping with the changing industry requirements. An industry Report (CITI, 2006:38) asserts that, “ATDCs...are lacking in terms of ...awareness on modern industrial requirements.” This is reflected in the fact that manufacturers like MI and TWW have set up training schools of their own, in-house, to better cater to their manufacturing needs, as they feel that there is not only a lack of skilled labour force but also a deficiency of standards in the skilled labour that exists.

### ***Infrastructure***

Indian infrastructure is disparaged as being of very poor quality, inadequate or in certain locations non-existent. The poor quality of power supply, roads and other infrastructure are commonly cited as sources of serious competitive disadvantages of Indian businesses in comparison with countries like China (see, for example, Henley, 2004). All of these were mentioned as factors adversely affecting competitiveness by companies in this study.

The IGMs studied are forced to take inefficient measures to compensate for poor infrastructure, for example air freighting instead of shipping goods to meet delivery times. In some case, it also

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<sup>7</sup> NIFT Website is available online at: <http://www.nift.ac.in/> [27.01.09]

affects their international strategy, as they choose clients based in countries that are less distant (e.g. UAE). Others talk of having to accept lower profit margins because of having to airfreight the goods. What is commonly acknowledged is that IGMs work under greater pressures and stress than their foreign-based competitors when catering to the international market. To this extent, many welcome the idea of catering to a domestic market, which is the topic of the next section.

### **5.11.3 Indian domestic market**

The shift in focus from catering for international to domestic market is widespread amongst participants in this study. Out of 23 companies, only three had no manufacturing activities or plans for such in the domestic market. Thus, it is important to investigate how this focus on the domestic market is going to affect the international activities of IGMs. Will it lead to a shift in focus whereby the domestic market will take precedence over international activities? Or is it the case that they are employing a diversification strategy that adds to the current basket of countries they already cater to? Does the move to catering to the domestic market open up opportunities in the higher end functions of the value chain like own design manufacturing (ODM) and own brand manufacturing (OBM)? These important questions are investigated below.

#### ***Diversification vs. Replacement***

Some manufacturers in this study view the domestic market as an opportunity to diversify their business to what is essentially a ‘potential new market’ rather than seeing it as a replacement. Thus, the Indian domestic market complements and adds to their existing portfolio of markets to which they cater. A bed linen manufacturer explains what opportunities the domestic market presents for their company and how this affects their international operations:

We are a 100% export trader, but the domestic market is a very good opportunity for us, as we can come up with our own branded products and [it] will also help diversify from focusing only on US market. At the moment we are in communications with Indian retailers like Shopper Stop and Life Style to try and supply products such as kitchen and table linen etc; [the] next step would be to come out with [our] own brand [*ME, DMI*].

This manufacturer not only discusses the Indian market as a prospective new market in which to diversify but also discusses the functional upgrading opportunity to own brand manufacturing (OBM) that the Indian domestic market presents. The upgrading prospects of IGMs will be discussed in greater depth in, Chapter 6, as the focus of Chapter is the upgrading prospects of IGMs.

The following comment presents the Indian market as an alternative market for this particular manufacturer, who sees his international operations ebbing away slowly:

Now [we are] looking at [the] domestic market...All this time we were very busy with international market, now there is very tough competition with other neighbouring countries [in the international market]. Before the domestic market demand was not there, and there is now demand for domestic market and...a necessity for us to get into domestic market because business is reducing overseas...At the moment I am too dependent on foreign markets, till the time they [foreign buyers] had business they used us. Now that they don't have business we are thrown. We [in India] have a population of 110 crore. All this time even the garment manufacturing for domestic was not an organised sector, was absolutely disorganised...[It] is coming to shape and all big players are getting into it, so we also will get into it, establish our own brand name, promote advertisements, promote our label. The domestic market holds a lot of opportunity, the supply is very [little], if you compare the requirements [demand] and supply...So...all the big people like Reliance and Tata and Shoppers Stop, all who have diversified into 100% exports, have diversified back into the domestic market. Also risk is diversified for me, if I ship to one customer to US, I ship 100,000 garments, so if I have to supply a 100,000 garments in India my risk is divided into 12 to 15 people, so that way also you are protected...We are diverging from international to domestic...We will slowly reduce international or maybe we will have [a] separate factory for international and separate factory for domestic [*LD, Dom1*].

This manufacturer is dependent on only his brother abroad who has set up an agency through which he receives orders. However, this is becoming increasingly difficult and the Indian market seems to hold more promise compared to the international market. But it is questionable whether his strategy of focusing on the Indian market over the international market, based on the fact that international market is getting tougher to compete in will be sustainable.

In contrast, a high up official in the Ministry of Indian Textiles [Delhi, MIT, 2008] warns IGMs must not become complacent in thinking they can rely on the Indian market as a substitute market to international markets. He reminds us that even the Indian market is open to international competition and it is only a matter of time before foreign producers, from countries like China, flood the market with their goods. Instead, he suggests IGMs should focus on increasing their efficiencies through upgrading their operations, which he believes is a more sustainable form of survival and competition whether catering to the international markets or the Indian market.

### ***Quality standard adherence***

This view of the Indian market as less demanding in terms of competition also extends to the notion that it is less demanding in terms of quality standards and compliance requirements. Thus the Indian market attracts many IGMs who struggle with catering to the higher standards required by foreign markets, as suggested by the following quote from an interview with a NIFT professor:

We have...seen a trend where most of the major exporters...have shifted their manufacturing...[from the] export market to the domestic market because this is the time when again retail is...growing. So export manufacturing companies have realised that instead of manufacturing for [the] export market, why not concentrate in the domestic market where returns are quick [and] you don't have to stick to 100% quality standards, compliance...[Additionally] since you are supplying...the domestic market you can come out with your own brands and you can also come out with your own store and retail  
***[Prof1, DMI].***

The interviewee also suggests that the domestic market provides opportunities for function upgrading, in high value added areas of branding and retailing for IGMs, an important issue that is considered and addressed in the next chapter.

For similar reasons stated above, regarding differences in demands of quality standards from buyers in the domestic market and international buyers, the following quote from a woven garments manufacturer shows their decision to concentrate on the international market instead of the domestic because it was difficult to cater to both markets:

We use to sell in [the] domestic market but we stopped for two reasons: a) here the...issue is money; the customer is never taken into account; b)...in case you have a culture in your staff like 'let it go, as it is for locals', the same culture cannot [apply to] exports. It gets very difficult to change the mind-set [of employees], so if you say 'let it go through', there is a conflict of frame-of-mind as to what your guy [worker] does. Either you set up two separate units and two separate [sets of] people to handle, or [you] don't do it [operate in both markets]; it has to be separate units, otherwise you mess yourself up. Of course there is more margin in locals [*MT, DMI*].

## **5.12 Conclusion to Section 2**

This section has provided empirical evidence regarding what motivates IGMs to internationalise in a certain manner, what motivates them to cater to specific markets and cater to specific types of buyers. It provides an insight into factors other than the lead buyer in driving and shaping IGMs motivations and decisions.

## **Section 3 Upgrading Practices & Prospects of IGMs**

### **5.13 Introduction**

This Section addresses the third research question posed in Chapter 1 of this thesis, that is, to understand the factors that affect the upgrading trajectories of Indian Garment Manufacturers (IGMs) within the apparel manufacturing value chain. To be able to access international buyer and markets in a more sustainable way, IGMs must engage in upgrading their business activities. Therefore, addressing the issues surrounding upgrading prospects is fitting within the broader context of the internationalising IGM are investigated. The upgrading activities of IGMs and the factors that help and hinder this upgrading is examined along with how upgrading can be linked with the international business activities of IGMs.

The section starts by establishing the range of upgrading activities undertaken by IGMs by categorising the findings using the four-fold GVC based typology, introduced in Chapter 2 of this thesis. It goes on to suggest a third upgrading category that emerges from the research



termed ‘market upgrading’ applicable to IGMs. Following this findings pertaining to the various GVC-based categories of product-, process-, functional- and chain- upgrading is presented. Findings for various alternative factors that IGMs suggest influence their upgrading practices is presented and finally the section ends with a conclusion.

#### **5.14 Range of Upgrading Activities**

It is important to identify the range of upgrading activities that IGMs have participated in or attempted to participate in, asking which ones they have focused on to date and – just as importantly – which have not yet been a focus for them, as well as what factors have helped, hindered or otherwise affected their choice of activities. GVC proponents Kaplinsky and Morris (2001) have provided a useful typology of upgrading activities, including product, process, functional, and inter-chain upgrading. These four categories have already been presented and discussed in greater depth in Chapter 2 of this thesis, but will be briefly recounted when discussing each category and its fit in the case of IGMs. Table 29 illustrates the analysis findings, identifying which forms of upgrading each of the interviewed companies has engaged in.

Table 29 Upgrading Findings (continued in Table 30)

Case Company	GVC-Based Upgrading Typology						Market Upgrading CASE*
	Product	Process	Functional Upgrading			Inter-Chain	
			<i>Backward integration</i>	<i>Forward Integration</i>	<i>Within Link Upgrading</i>		
<i>KL</i>	yes	no	no	no	Yes, organic clothes	no	no
<i>LD</i>	yes	yes	Yes, but for appearance sakes only	no	no	no	Plans to
<i>PF</i>	no	no	no	no	Yes, design	no	Plans to
<i>CG</i>	yes	yes	yes	yes	Yes, thinking of designing	no	no
<i>ME</i>	yes	no	no	no	no	no	no
<i>MT</i>	yes	no	no	no	no	no	no
<i>AT</i>	yes	no	no	no	no	no	no
<i>KI</i>	yes	yes	yes	no	Yes, specialize in trousers	no	no
<i>HT</i>	yes	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<i>TI</i>	yes	yes	no	no	no	no	no
<i>MI</i>	yes	yes	yes	yes	yes	no	no
<i>SD</i> CASE*	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<i>BK</i>	yes	yes	yes	yes	Yes, design & branding	yes	no
<i>SI</i>	no	yes	no	yes	no	no	no
<i>NH</i>	yes	no	no	no	no	no	no

NB: 'n/a' = not applicable (as companies may be domestic manufacturers)

\* CASE refers to special case that does not fit with findings of other case companies and requires to be dealt with separately.

Table 30 Upgrading Findings (continued from previous Table 29)

Case Company	GVC-Based Upgrading Typology						Market Upgrading CASE*
	Product	Process	Functional Upgrading			Inter-Chain	
			<i>Backward integration</i>	<i>Forward Integration</i>	<i>Within Link Upgrading</i>		
TWW	Yes CASE*	yes	no But considered	no	No, refused to cut out middle-men & upgrade	no	no
TS	no	yes	no	no	Yes, thinking of	no	no
RL	yes	yes	no	no	no	no	no
PRO CASE*	n/a	n/a	n/a	n/a	n/a	n/a	n/a
KK	yes	yes	yes	yes	yes	no	no
NSA CASE*	no,	no	no	no	no	no	no
UNI	yes	yes	yes	yes	yes	yes	Yes CASE*
SG	yes	no	no	no	yes	no	no

Source: Author's Own

**NB:** 'n/a' = not applicable (as companies may be domestic manufacturers)

\* **CASE** refers to special case that does not fit with findings of other case companies and requires to be dealt with separately.

Table 31 Upgrading Findings Summary (Summation of Table 29 & Table 30)

	Totals for GVC-Based Upgrading Typology						Total Market Upgrading
	Product	Process	Functional Upgrading			Inter-Chain	
Totals for all case companies			<i>Backward integration</i>	<i>Forward Integration</i>	<i>Within Link Upgrading</i>		
Total number of 'Yes'	17	11	7	6	9 (Of which 2 intend to upgrade)	2	3
Total number of 'No'	4 (2 n/a)	9 (3 n/a)	13 (3 n/a)	14 (3 n/a)	10 (3 n/a)	18 (3 n/a)	19 (3 n/a)

Source: Author's Own

NB: 'n/a' = not applicable (as companies may be domestic manufacturers)

As we see in Table 31, the most common types of upgrading have been product and process upgrading, followed by within-link upgrading, particularly in the design function. The least common type of upgrading is inter-chain upgrading. These varying upgrading typologies and their relation to IGMs are discussed further in the ensuing sections; however, at this point it is important to note that the GVC-upgrading typology is not exhaustive in its explanation of the types of upgrading that exist. This will become apparent from the emergent findings of this study, and for this reason the typology has been augmented. Furthermore those areas within Table 29 and Table 30 where the fit of the company is either not straightforward or there is an interesting case to be found the word “CASE” has been written in red within the tables, which indicates a special case that deserves further explanation and discussion. The results of the table are discussed in the following sub-sections, under each upgrading category type.

#### 5.14.1 Market Upgrading

The first important observation from the data collected suggests there is a need to augment the four-fold upgrading typology, offered by GVC proponents, and add a fifth category. This

additional fifth category is labelled 'Market Upgrading' and has been included in Table 29, Table 30 and Table 31, alongside GVC-based upgrading categories (Kaplinsky and Morris, 2001) that do not account for the concept of market upgrading.

IGMs report that they have upgraded or plan to upgrade the markets with which they work. They do this by expanding into new international countries or purposefully choosing alternative international markets in which to expand. So then, what motivations drive IGMs to seek new geographical markets that serve as alternative markets? Findings from this study suggest IGMs suggest a mix of interlinked factors that drive them to upgrade markets. The mix of factors is depicted in Figure 24; ensuing discussion presents findings for each of the individual factors.

In Figure 24 the boxes that feed into the central question using solid black arrows are the factors that have been quoted by IGMs as being responsible for driving IGM market upgrading activities. The grey dotted arrows link the motivations quoted by IGMs to examples of various underlying factors that offer explanations that are more comprehensive as to what drive IGMs to market upgrade. The following discussion provides evidence for the above mix of varying motivational factors that combine to explain what drives IGMS to upgrade their markets.

The following excerpt from an interview with manufacturer CG illustrates how some of the factors, in particular product quantity requirements, buyer type and market maturity (i.e., how 'defined' and organised a retail sector is within a market), all combine to impact on their decision to choose European and US markets over the markets of the UAE:

UAE [United Arab Emirates] has no comparison with US and Europe because the quantity is not that big, you really cannot depend on them, and no repeat purchases...You also know in Europe/US they have their own stores, so you know they have to keep buying...UAE are more wholesaler kind, and it's not [a] very defined market, whereas in Europe and US it's very defined [*CG(b), Com1*].

Further investigation into CG's background reveals that they are one of the largest manufacturers for woven clothes in India, and support a largest integrated manufacturing set-up (that is, their manufacturing operations comprises of various operations within the apparel manufacturing supply chain, including yarn, fabric and garment manufacturing). Thus to them it

is important that they expand into markets that offer them certain types of buyers, specifically large retailers who have a well-established presence due to being in an organised retail sector. Such buyers are likely to support infrastructure such as having shop fronts. For the manufacturer this means assured quantities from 'repeat purchases', which they require for their larger factory set-ups to work efficiently and to benefit from the scale economies that a large manufacturing set-up offers.

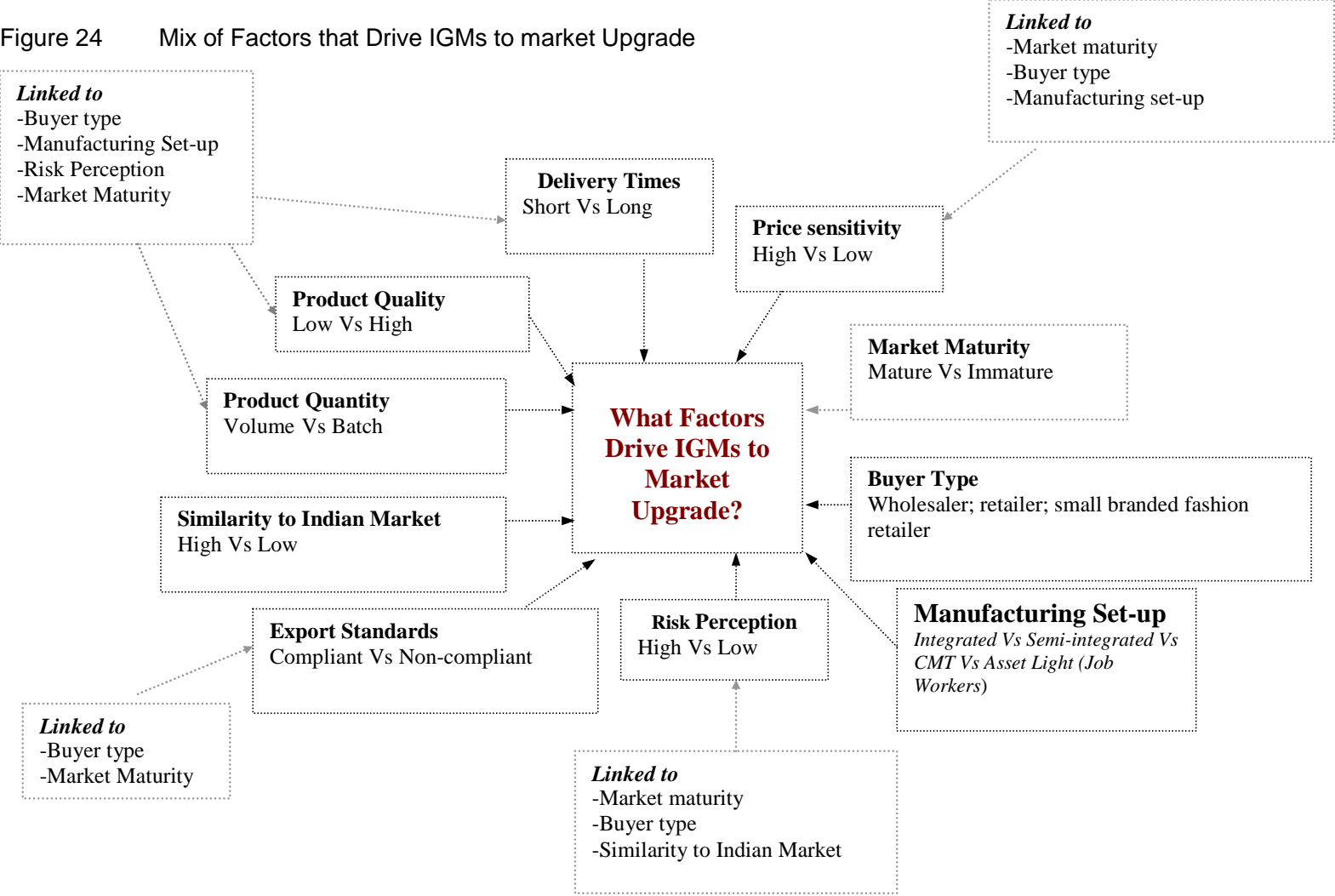
In a similar vein, the manufacturer PF mentions some of the same factors in discussing what drives their firm to channel their goods through a certain type of market; however, unlike CG they seek out markets that are less defined and less mature than those of the EU and US:

The known devil [Dubai/UAE] is better than unknown devil [US/Europe]...I have seen my relatives and friends do business with European countries where consignments [are] rejected...They are gone and finished because their product is not acceptable in the Indian local market...But the Dubai market [follows] the Indian market and Indian taste...so if I make these trousers tomorrow and any of my consignments is rejected, I have [an] alternative market in India I can sell in; I can liquidate my dead stock. [The] Dubai market is very cost competitive, you can't export to Dubai if you charge higher prices, you have to export to EU or US market *[PF, TM]*.

PF suggests factors such as the price sensitivity and "fashion forwardness" (i.e., a high level of fashion orientation, following the latest fashions) of a market, as well as similarities in fashion tastes to the Indian market, are factors that influence his decision to seek out markets like the UAE. The UAE is considered a less mature market, especially in terms of following emerging fashion trends. He further suggests alternative factors like quality, which he links to the underlying factor of manufacturing set-up, as also having an impact on his channel/market upgrading decisions:

Our quality is good but not up to the mark...so unless and until I have my own production base and proper quality control team I shouldn't go into these high-fi markets [Europe/US]...Dubai is not that quality conscious...You need to have that product range and that quality; otherwise the product will be rejected in [Europe/US market] *[PF, BDI]*.

Figure 24 Mix of Factors that Drive IGMs to market Upgrade



Source: Author's Own

PF operates a small manufacturing business that is asset light. Unlike CG they do not support an integrated set-up but instead depend on outsourcing all their production needs to a third party or job worker, only retaining the design function in-house. Consequently, the quality of their goods suffers due to a lack of control over production matters thus requiring them to find alternative markets in which to target their goods. Thus the less mature markets of the UAE, in terms of quality and fashion forwardness, act as useful conduits through which their lower quality goods can be sold. Furthermore, such markets do not ask for compliance standards to be met, making them ideal for companies like PF, who runs a non-compliant factory.

In a similar vein to PF, companies like KK, CG and MI, who are large manufacturers and run integrated, compliant manufacturing set-ups, suggest that the integrated, compliant set-up they support does not allow them to consider targeting and expanding into markets like the UAE [CG(b), Com2], where buyers are highly 'price sensitive' [MI, Com1].

Manufacturers like MI have also suggested that expanding into new markets in general is a risk diversification strategy, ensuring that they are not reliant on any one market.

#### **5.14.2 Product upgrading**

Product upgrading involves improving a product's quality through investing in new technology or machinery or improving quality of raw material sourcing. It can also involve increasing the range of products offered to customers. Most of the companies in this study have upgraded their product in some way. Many have improved their product quality through investing in better machinery. For example, the t-shirt manufacturer, BK, invested in a butterfly machine, which allowed them to improve their quality of printing on t-shirts. Whereas before t-shirts were hand-printed using print screens which led to difficulties in maintaining consistency and accuracy, and made the process slower, using butterfly printers allowed for greater consistency and output efficiency when printing. Various other manufacturers, like SI and MI, have also invested in machinery like fusing machines to attain certain finishes that improve the look and quality of their product (in this case shirts).

Many of the manufacturers have also upgraded their product by diversifying into a wider range of products. Many suggest that this upgrading is driven by buyer needs or demands, as many



buyers, being retailers who cater to both men's and women's wear, like to source from manufacturers who can offer them a range of products. To this extent, GVC is able to explain how buyers can induce product upgrading in some suppliers; however, it does not explain why some producers refuse or are reluctant to upgrade their product by incorporating a wider range of categories despite knowing that buyers prefer to work with suppliers who offer a wider range of products. What is interesting to note is that manufacturers see certain garment categories as easier to cater to than others. Men's clothing, for example, is considered a relatively safer product market than women and children's, particularly as men's clothing is perceived to be less fashion oriented than women's. Thus, the risk perception associated with certain product categories can deter manufacturers from upgrading their product range. However, risk perception is also linked to the structure a company operates under. Certain manufacturing set-ups do not allow companies to maintain and produce the consistent high quality standard products required of mature markets.

One interviewee, SD, gave a personal rather than business reason behind his choice of what to manufacture, suggesting he always was fascinated by formal nightwear, having encountered a roommate in boarding school who owned a pair of foreign made, English styled, pyjamas. Others have just decided to get into garment manufacturing and specialised in whatever was requested from the buyer in their first order. However, company TWW was a rare case in that the company carried out extensive market research that took into consideration the quota restrictions on certain categories of garments before deciding which garment category to manufacture. TWW also monitored the changing garment industry environment, which involved either the entrance of new competitors or changes in regulations, and adjusted their production strategy appropriately. For example, they tried to find categories that were less competitive in general and in particular avoided relying solely on lowering price as the main condition for being marketable.

### **5.14.3 Process upgrading**

Process upgrading involves increasing production efficiency and/or reducing unit cost of output. Manufacturers who specialise in volume-based production, particularly TS, CG and LD, and to some extent KK and MI indicate that they invest in machinery that helps to increase their production efficiency. However, many of the manufacturers in this study are fashion-oriented

manufacturers who work with smaller batch production, and process upgrading is less of a priority for them. The type of investments they make mostly relate to machines that have improved the quality and finish of their product or allow them to introduce a different category of product, which is related more to product upgrading rather than process upgrading.

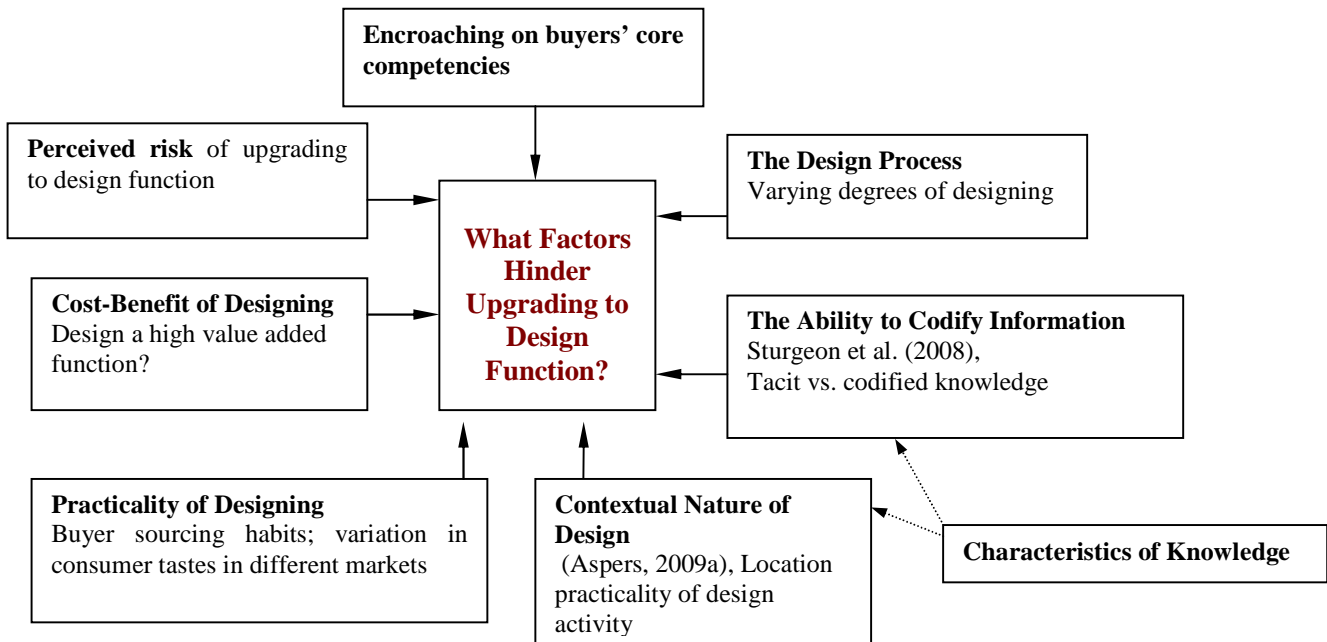
#### **5.14.4 Functional & chain upgrading: Value added upgrading activities**

This section considers two types of upgrading: inter-chain upgrading and functional upgrading. Inter-chain or chain upgrading is where a firm enters into a new value chain based on the manufacture of a different or unrelated product or service. Whilst functional upgrading involves a firm entering into a new link of the value chain this can be in terms of forward or backward integration along the value chain or can involve upgrading within an existing link within the chain. In this study not much attention is given to forward integration such as fabric and yarn manufacturing or cotton production, as very few IGMs reported such activity, suggesting it involved a difficult, specialised area of knowledge as well as substantial investments in specialist machinery. Instead, the design function will be the focus. It is also considered a high value added function, and seemed to be a prevalent upgrading area in which IGMs have attempted to upgrade to (some more successfully than others), as well as being an area under-studied in extant literature. Thus, the following sections present findings related to IGMs design and inter-chain upgrading activities respectively.

#### **5.14.5 Design Upgrading**

IGMs in this study propose various factors that hinder their attempts to upgrade to and within the design function. The various factors are summarised in Figure 25 and the related findings are presented in ensuing sections.

Figure 25 Reported factors that hinder design upgrading



Source: Author's Own

### ***Encroaching on Buyers Core competencies***

IGMs in this study did not see buyers as a hindrance in their decisions or plans to upgrade to design-based activities. In fact, manufacturers suggested that buyers preferred them to participate in more activities of the value chain, including the design function, as suggested in the following comment:

No, that [buyers' resisting 'encroachments' on their core activity by producers] is not the case. [Buyers] in fact like us to design because then we are easing their work, so it's not like that they don't want us to design, they like us to design [*KK(b), Des3*].

The following comment by a manufacturer of knits and woven garments who supplies large retailers like JC Penny's reflects his experience of designing for buyers:

Nowadays everyone wants a full product provision, if I come to your company and if you're a buyer and say you give me the fabric, you arrange the trim. ... Nobody is interested, people are interested in a packet, say, this is \$4, the whole thing done, period, chapter closed. [The] product line is also mine, designing is also mine, fabric sourcing is also mine, everything is mine. ... They want a full service. ... It cuts down their time to go and look for everything [*LD, Auto*].

This manufacturer is alluding to the fact that buyers want full package suppliers who will carry out all functions related to the manufacture of the garment. However, upon further questioning regarding the design function, it became apparent that the process of designing was important to investigate due to the differences between the experiences of various manufactures; the design process is the topic of discussion for the next section.

### ***The Design Process***

Most manufacturers in this study, with the exception of NSA, asserted that they design for the buyer. However, closer inspection revealed that the level of design could differ greatly from one IGM to another, making it necessary to analyse the various degrees to which producers master the design function. Some manufacturers, like MI and KK, can be said to engage in design at a very high level, whereas companies like CG, TI, or NH are designing at a lower level, and AT at an even lower level. This level depends on the buyer's approach, as suggested in the following comment:

Every [buyer] has different formats...which we work with; for example, Saltrock ... always send us just designs. We develop the designs, we give samples to him and then he comes back with a tech pack and he exchanges, like 'I don't like this here; I want this at the back etc [*BK, Des1*].

The GVC approach to functional upgrading suggests that upgrading can take place between links (i.e., from one function to another), as well as within links (i.e., within a particular function itself). Thus achieving greater degrees of design can be seen to be a form of within-link upgrading. Table 32, Table 33, Table 34, Table 35 **Error! Reference source not found.**, Table 36, and Table 37 together present a set of categories that have been formulated to describe the possible degrees of design IGMs in this study have described as their contribution in terms of 'participating in the design function'. Each table presents a particular category of design and the evidence supporting each category.

Table 32 Varying Degrees of Design: Sample Copy

Degree of Design Participation	Design Type	Required skill sets to participate at corresponding level of design	Evidence Relevant Quotes
LOWEST	<i>Sample Copy</i>	Producing garments from a sample garment provided by the buyer. Here normally the buyer will provide a sample selection of garments, which the manufacturer makes exact copies of. This involves no design effort from the manufacturer, nor does it require the producer to interpret designs (as is required when designs are presented in sketches or picture format). Although manufacturers make exact copies, they still need to be knowledgeable about how to achieve the finishes and look that the buyers want.	Companies like PF, IT, and AT have all worked with buyers who provide them with a sample garment which they are expected to make an exact copy of.

Source: Author's Own

Table 33 Varying Degrees of Design: Taking inspiration from samples

Degree of Design Participation	Design Type	Required skill sets to participate at corresponding level of design	Evidence Relevant Quotes
LOW	<i>Taking inspiration from samples</i>	At this level of designing the producer uses a sample garment, provided by the buyer or bought from another brand, as a guide to produce a new, slightly different looking garment, but keeping with the overall theme and style of the sample garment. For example if the sample garment is a T-shirt with a number logo at the back, the manufacturer could change the logo slightly by varying the number, colour and style a little, but otherwise keeping the overall font style and placement of the logo the same. Thus, the sample garment is used as a guide and basis upon which the manufacturer generates a sample of his own to be approved by the buyer before being sent for production. The manufacturer requires a certain level of creativity and design skills to be able to make such small design adjustments.	<p><i>"Sometimes the buyer will buy shirts from the competitors and will request minor changes to the shirt so they aren't copying the shirt; that is when my design skills come in" [RL, Des1]</i></p> <p><i>"Mainly we copy the big brands. We never come up [with] our own fresh ideas; we just follow these brands ... We copy western brands, Pepe, Levi's, Diesel; we pick up some pieces, show them to [the] buyer for his approval, he approves pieces and we give those pieces to the designer and ask him to develop [designs] along these lines. Ultimately you have to guide your designers" [PF, DES1]</i></p>

Table 34 Varying Degrees of Design: Working with a tech pack

Degree of Design Participation	Design Type	Required skill sets to participate at corresponding level of design	Evidence Relevant Quotes
<b>LOW to MEDIUM</b>	<b><i>Working with a Tech Pack</i></b>	<p>At this level of designing the manufacturer works from a technical package (also known as tech pack), provided by the buyer. The tech pack holds various details regarding the specification of the garment to be produced. Tech packs vary in terms of the content of instructions provided. At this level, however, tech packs contain detailed instructions regarding design sketches of the garment, colour pallets, accessories to be used and where to source them; they also include fabric swatches and sizing sheets to help guide the manufacturer in terms of producing to exact specification. Due to the high instruction content, very little creativity is required, almost less so than in the above degree, but a specific set of skills is required to read a tech-pack and from this make samples for buyers' approval.</p>	<p><i>"In my company we don't do any designing as such, we get instructions from the buyer [in] a tech pack. They say that this is what we want and we have to produce the same thing in the best fabric at the best price and you're in business. ... The customer I deal with does not need designing, they have their own design team, and they have their own themes." [TI, Des1]</i></p> <p><i>"We don't do designing at all; we use the buyers' design, and most of my customers ... have their own designing teams and they are all very focused. They are open to ideas, but they have their designing team. They know what the forecasts are, and they send us the tech packs." [NH, Des1]</i></p>

Source: Author's Own

Table 35 Varying Degrees of Design: Interpreting from a tech pack

Degree of Design Participation	Design Type	Required skill sets to participate at corresponding level of design	Evidence Relevant Quotes
<b>HIGH</b>	<i>Interpreting from a tech pack</i>	Interpreting a tech pack requires both the ability to read it and the ability to generate ideas from a sample sketch provided in the tech pack. Here the tech pack is not as highly detailed and is used more as a guide by the buyer, who relies on the supplier to help generate more ideas, based on the sketch provided. At this level, the manufacturer requires design skills and the ability to read and interpret the designs provided in a tech pack and converting them into physical samples for the buyers' approval.	<p><i>"[In] most of the designing for [the] European market or otherwise, [buyers] usually send their design work [in] tech packs; but we offer a lot of combinations to the tech pack, we give them options plus suggestions. Suggestions are based on value also; if a garment is \$3.50 [and] they want a big embroidery on the chest but it's working out too expensive, we offer them a print, which is a little cheaper than embroidery, ... just to hold onto the [client]" [BK, Des1]</i></p> <p><i>"The buyers give us flexibility. The first part of the designing is done by us. ... They feel, ok, fine, this season there are gonna be prints which are gonna run in the US, so they tell us work on prints, the '80's look, the '70's look. ... They give us a base line on what to work on ... and then we take it forward, design it, make [an] actual sample, and send it to them ... and then we adjust it. ... [There is] definitely a lot of collaboration". [AT, Des2]</i></p> <p><i>"We do design, we have a full fledged design department, they get the ready tech packs from the buyer, so this [tech pack] is a picture of [the] garment, specification, construction, structure. ... Then the design department uses those design templates to manufacturer the garment. ... Input in [the] design template is 50:50. [The first step] is to visualise; their designers [visualise]. [In the second step] here, people put into practice. ... So the design can change. ... There is regular feedback between their company and my company. ... It's part of the requirement to interpret tech packs" [LD, Des1, 2]</i></p>

Source: Author's Own

Table 36 Varying Degrees of Design: Collaborating in design conceptualisation

Degree of Design Participation	Design Type	Required skill sets to participate at corresponding level of design	Evidence Relevant Quotes
<b>HIGHER</b>	<i>Collaborating in design conceptualisation</i>	<p>At this level, the buyer collaborates with the manufacturer to conceptualise the type of designs and styles that will be produced for a collection. In such arrangements, the buyer’s designers come to India and spend a week or so with the manufacturer’s designers to collaborate on designs for a collection. Companies like MI and KK in particular tell of this kind of arrangement. For such an arrangement to work the manufacturer must have a fully-fledged design studio which hires highly capable designers who know how to use forecasting websites and are able to design oncoming seasons as well as create designs from forecast. Skills like forecasting and creativity are important requirements. Investments in forecasting magazines and web sites are also essential. Some of the larger manufacturers require the producer to have a dedicated design studio for this level of design activity.</p>	<p><i>"We share a lot with the buyers. Buyers actually come down [to India] to discuss ideas and see the company’s collection of ideas and trends. They look [to us] to add design inputs. ... Some buyers send their designers over here for a week and make a prototype here and send a tech pack after" [KK, Des2]</i></p>

Source: Author’s Own



Table 37 Apparel Design Outsourcing (ADO)

Degree of Design Participation	Design Type	Required skill sets to participate at corresponding level of design	Evidence Relevant Quotes
<b>HIGHEST</b>	<b><i>Apparel Design Outsourcing (ADO)</i></b>	<p>This could be considered the highest level of designing, where the entire design function, from conceptualisation to final tech pack creation and execution of design, is managed by the manufacturer with a bare minimum of input from the buyer. None of the manufacturers in this study achieved this level of design. However, an interview with a top apparel industry journalist and further secondary research suggest that the development of ADO, albeit still at its nascent stages, is underway in India.</p>	<p><i>“In the past, India was viewed as a cost-effective manufacturing base for foreign fashion brands. However, that is quickly changing. For instance, Orsay, a 30-year-old international fashion brand for young women that has more than 400 retail outlets across eight European countries, looked to Munch [Indian ADO] to cater to their design needs.”</i>  <i>[http://www.rediff.com/getahead/2006/may/31 ado.htm]</i></p> <p><i>“India, especially for the export industry... has never taken the design very seriously. The designers in Indian export industry used to work only on adapting designs and on tech packs and do merchandising activities, so it has never been taken very seriously. No designer would do hard-core design in the Indian export industry, but today the trend is coming where people are asking the designer to develop their own design rather than doing the adapting part or modifying an international design, so now a trend is coming slowly, slowly, where people are recognizing the Indian design talent [and] instead of asking for [a] foreign designer to send his design we are having our own designer studio. ... CG and MI’s design studios are some who are coming out with their own design studio, earlier there was mainly only a sampling unit who will only adapt those designs and then produce their stuff, but design studios are [an] integral part and important part of the ... big export houses.”</i>  <i>[NIFT Prof1, Des1]</i></p> <p><i>“India has long provided the world with clothes, made cheaply to patterns drawn up in Paris, New York and other global fashion centers. Now, it is starting to design them too.”</i>  <i>[http://www.sawf.org/Newedit/edit03202006/index.asp]</i></p>

Source: Author’s Own

What is important to note is that the different stages of design are not intended to suggest a manufacturer progresses from one stage to the next. Instead, findings suggest that IGMs were likely to work at a combination of design levels at any one point in time depending on the buyers' requirements. What they stressed was that the various buyers had differing needs and capabilities in terms of how they preferred to deal with the design function of the production activities.

### ***Difficulty with Codifying Design***

Many manufacturers in this study felt that interpreting designs sent by buyers was a difficult task. Although specifications in a tech pack to some extent can help discern what is required, it still is difficult to know what exactly the designer who creates and visualises the design wants, as is suggested by the following comment by a manufacturer who prefers a physical sample to a sketch:

We really find it difficult working from the pictures to know what exactly they [the designers] want, so we ask them to give us the sample only, [a] ready-made garment. So, if [it is] a shirt, they give a shirt, so we make according to same shirt, otherwise [it is] very difficult. If I make something, wrong it's a waste of time...Sometimes they only send the sketches; they want this length or this...But details [are] not given properly, so 90% they send a sample original garment only, and if they don't have [one] then we make a sample from the sketches and we send [it to] them. Then once they approve...we keep one sample for production and one for them, but it is very difficult, you know, it's better to have original samples from the buyer only ***[KL, Des2]***.

What this highlights is that communicating a person's visualisation or a creative idea, which is design conceptualisation, can be very difficult.

### ***Contextual nature of Design: Location practicality of design***

Findings from this research suggest there is yet another dimension to designing. This is the location factor, which hinders manufacturers from easily upgrading to and participating in the design function. Various manufacturers suggested that the reasons their design input was low or nil was because they felt being based in India makes it very difficult for their designers to predict the trends and fashions in the buyers' markets and therefore difficult to generate upcoming styles that will sell successfully there. The following comment illustrates the reliance on designers

based in the buyer's own market, thus underlining the importance of location for the design function:

We get a lot of direction for design from the New York office because they are closer to the market. They have more of...acumen on what will work and what won't [*UNIc, Des1*].

Interestingly this manufacturer, UNI, can be used as an exemplar case firm which, compared to other firms in this study, has achieved a full range of upgrading types, including chain upgrading. Despite these achievements, they still indicate that the design function requires input from the buyer due to the impracticality of designing when not based in the target market in which the clothes are sold. The following comments further demonstrate the importance of location:

Designing happens out in our US office where we have a team of US designers. This is because it makes more sense; not only are the designers closer to the market, but also they are able to make changes and consult with buyers in US. It's easier as we are on location...It's harder to carry out such functions in India, as we would not be able to be as good at knowing what works...in [the] US...So in [the] US we make up the tech packs that we consult with the buyer and then send out to India to make samples that have to be approved by the buyers, and then once they are approved, the samples are reproduced in dedicated factories here in India [*ME, Des1*].

We have one foreign designer, because we have an office in the US, so there she is in touch with the customers also. She is from the US, she is on the spot, she knows what designs work there; she knows what they want...She stays in the US [*TI, Des2*].

The above manufacturers, and MI, have set up design and marketing offices abroad, in part as a means of circumventing the problems of location. However, both are also relatively large companies compared to the other manufacturers in this study and thus are able to afford the costs of running a foreign design and marketing office.

Manufacturers have also pointed out that since they will normally work with a variety of buyers from varied markets, the fact that each market has its own local design and fashions makes it

difficult for the manufacturer to keep track of the various design trends, as reflected in the following comment:

The reason why we don't design is because France, Australia, Switzerland and UK all work different. For example, UK guys will never wear bright pink or yellow briefs; French guys will wear it. If you make a pack of mélange black and white as men's vest or a brief for the French market they will throw it off and say, 'Have you gone off your rock or do you think we've become that old?' Whereas that is the only thing which will sell in UK or Canada...We are then happy for them to keep the design function [*MT, Des1*].

### ***Impracticality of buyer's operations***

The following comment of a shirt manufacturer illustrates how the way in which a buyer configures his/her manufacturing networks makes it impractical for the manufacturer to assume the design function:

The customer I deal with does not need designing. They have their own design team; they have their own themes. And also, for example, if we do a shirt, design a shirt for them, but the customer's entire look is different...[then] my design of a shirt may not suit their look, so they have designers who do co-ordinating things...They have their own in-house designers [*TI, Des1*].

Buyers often outsource their manufacturing needs to a number of different manufacturers, who may or may not be located in the same country. The producer may do this either to diversify the risk of outsourcing all his production needs to one supplier or they may allocate manufacturing to specialist producers who are known for their competency in manufacturing a particular product category, like shirts. At the same time buyers like to develop collections of clothes that have a common theme and an ensemble that can be mixed and matched rather than odd pieces of uncoordinated clothing, which they feel encourages consumers to buy more than one item. This is another reason why it may not be practical for buyers to assign conceptualisation of design to their manufacturers, and make more sense for their designers to come up with a complete styled range of coordinated clothes and then allocate the production to relevant manufacturers.

This is not to say that some buyers do not produce entire ranges with specific manufacturers; in fact, in the section on product upgrading this is the very issue that manufacturers raise. They

prefer to upgrade through product diversification (i.e., increase the range of products they manufacture for a particular buyer) than to increase the number of buyers that they deal with, as in this way they can build deeper relationships with the buyers and cater better to their growing and diverse needs.

Despite the problems encountered in upgrading to the design function due to the above-discussed location practicality issues and difficulties in codifying design, there are IGMs that have actually managed to design for buyers. An interview with an industry journalist suggests that the concept of “apparel design outsourcing” has definitely taken off in India, with companies like Munch who have received designing contracts from large foreign retailers (this was confirmed through a telephone interview with Munch).

Such activities are also seen in sample companies like MI who has clients that are high-end design houses like Armani, D&G, and Jean Paul Gaultier. MI’s designers work closely with the foreign buyers’ designers, who come over to India and gain a lot of inspiration from their collections. In some cases, they have also been known to accept designs as designed by the Indian designers.

These developments are surprising and very promising, demonstrating that Indian manufacturers are capable of designing at the conceptualisation level. Then how do these companies overcome the issues of codification and the contextual nature of knowledge discussed above? Many of the manufacturers talk about the highly skilled graduates they employ from institutes like NIFT (National Institute of Fashion Technology), which are government sponsored and nurtured fashion schools. Furthermore, MI uses and subscribes to web-forecasting technologies like WSGN, which help with forecasting fashion trends and provide latest real time images of fashion shows in major fashion hubs like Milan, London, Paris etc amongst other online services. With the use of such sophisticated technology, manufacturers enable their designers to overcome certain issues regarding context. However, use of such technology comes at a price and can be very expensive for many smaller manufacturers to obtain, leaving them vulnerable to the contextual nature of designing.<sup>8</sup>

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<sup>8</sup> An interview with one of the pioneering apparel design outsourcers, Munch, suggests that the cost of designing is so much cheaper in India than in Western mature markets like UK: "If you look at the cost of

### *Costs and benefits of designing*

Upgrading to a high level of design, especially in terms of being able to interpret tech-packs and from these create new lines, requires a sampling unit, which in turn requires merchandisers as well as designers to be employed. Such a sampling unit has many sunk costs. Taking these factors into consideration manufacturers in this study suggest it is not always beneficial for them to design. Design does not always work out to be a higher value added function from which IGMs can derive higher income earnings as is explained in by the following manufacturer who operates a full fledge design studio:

[It] depends on the reach of the organisation; bigger organisations can absorb the sampling costs and take it as an investment, whereas smaller organisations have problems, as they could not hold different enough or larger prints and stocks of fabrics. ... You have to understand one thing: sampling, making samples requires a lot of big infrastructure and at this stage there is a lot of wastage; only big organisations can absorb the sampling costs and are able to actually carry it out, for example, just to make one sample, let's say a T-Shirt. [First] you have to buy 50 kg of yarn; when buying yarn it does not come in smaller denominations, it comes between ranges of 50 to 150 kg. [Second] for knitting the yarn you need at least a minimum of 10 to 15 kg. [Third] for dyeing, to make a dye bath, you need a certain amount of fabric 10 to 15 kg minimum to dye in the dyeing machine for the greige fabric. And [fourth] for stitching and printing only 400 to 500 grams required ...all this is needed just to make one sample; if you think about it a t-shirt hardly weighs a kilo!!...So there is a lot of waste material in the process of sampling [*KK(b), FU*].

Another manufacturer, NH, supports KK's claims, and further indicates that in his experience, designing did not lead to an increase in income:

For designing we spend a lot...I used to do developments, I used to have my designers, I used to bring a lot of samples from other brands and change them, develop them and show to customers. It cost a lot of money, but ultimately when I thought that it really didn't help me increase my turnover...The designing team, and making the fabric, and even if I have to make one design, for example, and just one style to show, for one piece, I have to make the fabric four hundred pieces, can't buy in small quantities have to buy in bulk...Ultimately I did notice that my customer they sometimes appreciate what I like but it

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one workstation it will work out to 4,000 pounds (308,000 rupees) in United Kingdom. In India the price is between 20,000 rupees and 40,000 rupees." See: <http://www.sawf.org/Newedit/edit03202006/index.asp> [Accessed 01-10-2009].

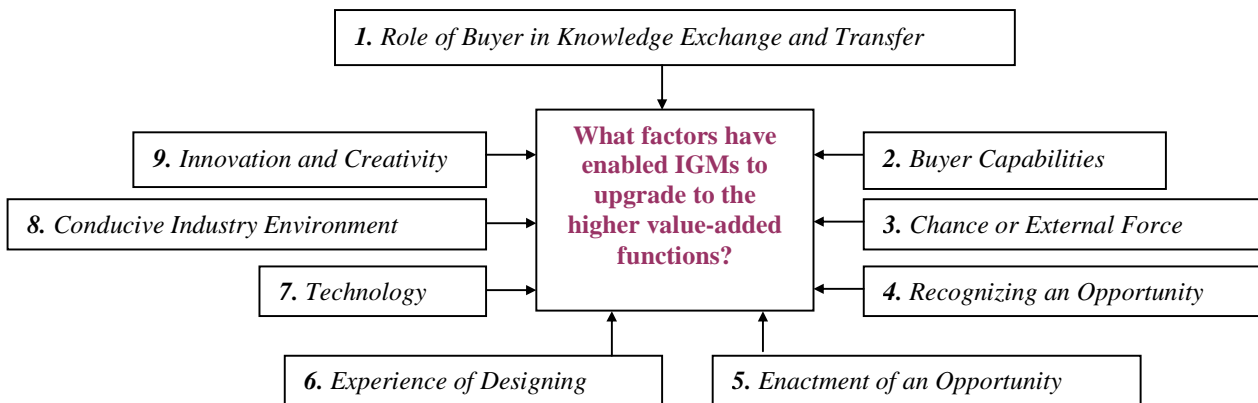
never helped me to increase my turnover...And ever country like even two companies in the same country the designer have their own ideas and they might vary...So the design ideas vary from customer to customer company to company...[it] Cost to much, set-up costs and there was hardly any return and I have decided that I must have control over my cost now [NH, Des1].

Thus for many smaller or mid-sized manufacturers design will still be a difficult function in which to upgrade to, especially when considering the higher degrees of design participation, such as design conceptualisation.

### 5.15 Factors that help with upgrading to value added activities

What factors enable manufacturers like MI and KK to achieve a high degree of design participation and UNI to achieve chain upgrading? Figure 26 summarises factors that IGMs felt helped them upgrade to high value added activities; the evidence for each of the factors is presented subsequently.

Figure 26 Summary of Findings indicating factors that help high value added upgrading



Source: Author's Own

### 5.15.1 Role of buyer in knowledge exchange and transfer

The findings for understanding the role of the buyer in transferring knowledge to IGMs is structured and presented using The Ernst and Kim (1991) Knowledge transfer matrix, as introduced and discussed in Chapter 2 of this thesis.

From data collected in this study, it is possible to say that in the case of IGMs the first and second quadrant is not applicable. Buyers in this study have not provided any formal means of channelling knowledge; it has only been transferred through informal mechanisms. The ensuing sections discuss the relevance (or lack thereof) of the four quadrants to the experiences of IGMs in this study.

#### *Quadrants (1) & (2) of the matrix - Use of market mediated mechanisms: Formal Mechanisms & Commodity Trade as enablers of Knowledge Transfer*

The use of market-mediated mechanisms (quadrants one and two) is not applicable to IGMs in this study. Evidence suggests foreign direct investment (FDI) inflows into India are low and especially within the garment industry are negligible (CITI Report, 2006). Furthermore, national news articles and interviews with government officials give a sense of disconnect between industry and government regarding the role of government in attracting FDI.<sup>9</sup> The following quote from a garment manufacturer expresses the lack of formal technology transfer mechanisms taking place:

None [no technology transfer]...we have our own international machine suppliers from [the] Far East: Singapore, Hong Kong, China, who guide us...All other skills we learn in-house, no help from buyers...You have consultants who approve your factory rated for you to the requirements of the Wal-Mart and JC Penny; we are implementing and re-evaluating every year for compliance purposes *[LD, KT]*.

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<sup>9</sup> In an interview, a high-level official in the Ministry of Textiles of the Government of India agitatedly exclaimed, "The government has opened up FDI fully," and exasperatedly added, "What more do they [IGMs] want us to do?" (At this point, the researcher felt it was better to discontinue further pursuing the line of questioning).



***Quadrant (3) of the matrix - Use of non-market mediated mechanisms: Active, Informal Mechanisms in enabling knowledge transfer***

Quadrants three and four are the most applicable to the IGMs in this study, as manufacturers in this study have much to say about informal mechanisms through which they may have enjoyed a certain degree of knowledge transfer while working with foreign buyers.

Most of the knowledge transfer reported by IGMs seemed to be in the areas of compliance and the technical aspects of achieving certain quality requirements or finishing. Although these are not core aspects of design, they are an important part of attaining the desired finish and look of a garment. The following excerpts from interviews with managers show examples of the range of informal mechanisms through which knowledge is transferred, as well as highlighting the types of knowledge transferred:

*One of the largest garment manufacturers in India suggests a role for knowledge transfer in achieving certain quality levels:*

When you are working with a customer [buyer] he teaches you how to make garments for international quality, how to finish the fabric, what is the quality standard they need, how do you check it. As you make for different, different buyers you learn so many things, because every buyer has different requirements, and you gain a lot of experience [**CG(a), KT**].

*One of the largest manufacturers of knitwear in India:*

Some buyers' processes are very standardised, everything is very crystallised. If we can't achieve this [standard] their technical team will help us, they will suggest [that we] buy certain machinery xyz, or they might suggest a process I may not be familiar with...They too want a good product. In terms of technology improvements, they suggest processes or machinery that could help, they don't come in. If you work with demanding buyers, it keeps [you] on your toes and definitely, you get better at your job...At the end of the day, they [the buyers] conduct their final inspection. How you reach there is your problem; they just want the final product [**KK(b), KT**].

*Highly Design Oriented Company:*

Most high-end buyers send people/technical staff for production...they show quality and method, they even send [people for design]. This interaction means we learn a lot, learn something new and try to implement this with other production runs [*MI(c), KT-factory manager*].

*Producer of Woven Garments:*

Their (buyer's) way of working, their PDMS [product development and management systems], their QA [quality assurance] requirements are so much in system that I feel that my factory is getting into system because I work with good buyers and we are getting trained in a good way...E.g., their way of working their requirements, their timings are so good, on time; they don't waste my productive time etc...They always help by telling us what technology is latest, right, machinery; they also give training to our pattern makers/masters. They have regular workshops where they call in our QA and explain [to] them; these are the cuts you have to follow so that there is less mistakes happening in the fits and measurements. They also help to meet compliance standards, more interactive, in particular Otto AGN. As a result of working with these buyers, we know the international markets and how they work, because we have worked via the agency. They have enhanced my knowledge of foreign buyers and the parameters they look for [*RL, KT*].

The manufacturers quoted here suggest that the knowledge that they gained from working with foreign buyers helped them to improve in the areas of production techniques and quality standards. KK also notes that the buyer may suggest to them to invest in certain types of machinery that give them a desired finish or better quality. In RL's case, working with foreign buyers has in addition helped improve internal house keeping and production systems. What is perhaps most interesting to note is the emphasis both MI and RL place on the type of buyer that they work with: 'high-end buyers' or 'good buyers'. This is an important point to highlight when comparing their experiences of knowledge transfer with those related by other manufacturers in this study, who have not benefited much in the way of knowledge transfer even at the informal level, as is expressed by the following comments:

I don't think we have really got anything...A certain standard of quality, yeah, but they haven't done anything for it, we have to do it, for example timely delivery...They are just asking for it; by asking for it, you are not really contributing, you know [laughs] [*SG, KT*].

They [the buyers] are not showing how to make good fabric, they just say make it or this is what I want. Sometimes the fabric is so beautiful that you just can't make it in India; it's from [the] Far East - Korea, Thailand...It's the yarn they use – imported – and also we don't know what yarn they use; our spinning guys can't do it, Reliance [a key player in Indian fabric manufacturing] can't do it...The foreigners need to teach us this is the fabric they are buying, this is the yarn they are using, this is the process, then we can do it. Once we have [a] little direction then we can run, but there is very little collaboration; they themselves have no idea about the make-up of the fabric...The whole industry nominates, but they do not nominate yarn or dyes stuff because they themselves don't know how to make it...So how can they help? **[TI, KT]**

The manufacturer quoted in the last comment, TI, makes an important point, also brought up by other manufacturers in this study, about the competence of the buyers themselves, especially in more value added processes like fabric manufacturing. Many of the buyers themselves are not aware of what processes are required to achieve certain desired looks or finishing and in such cases are unable to impart such knowledge, not possessing it themselves. TI works with foreign high fashion buyers, who could be considered lead firms, having well known brand names. Other manufacturers expressed opinions like:

The buyer needs us as much as we need them **[NH and TI, Auto]**.

*and*

Retailers...always look at you [the manufacturer] as a support base for ideas...They need us also **[KK(b), Des3]**.

These points suggest either that the particular buyers that these manufacturers interact with are not particularly knowledgeable about the processes underlying their products or that there is more and more knowledge migration from the buyer to the manufacturer. This would mean that as buyers have relinquished more and more of their production activities they have also lost a lot of their knowledge regarding techniques and processes, instead relying on their manufacturers to keep up with latest developments. During an interview with a fabric technologist and developer at Puma in Germany, who collaborates with manufacturers and makes raw material and product procurement decisions, she describes how the development function works:

There are many ways of dealing with how buyers and manufacturers interact. One, we tell them what types of requirements we have and want and they go and develop it for us and we agree on the final outcome; two, we give them exactly what we want, a sample, and they copy it exactly for us; third, we invite them to show us what new innovations or developments they have come up with [*FD/T, Germany, Phone Interview*].

In terms of learning, the fabric developer feels that the onus is often on the manufacturer, as she further explains:

It's completely dependant on the manufacturer to learn the latest developments etc, any self-respecting manufacturer will have a proper development and research team [*FD/T, Germany, Phone Interview*].

She further elaborates that many of the technicians hired by Puma come straight from universities and in such instances have very little experience and require competent suppliers to guide them in their decision-making.

***Quadrant (4) of the matrix: Use of passive, informal mechanisms in enabling knowledge transfer***

In this quadrant, suppliers are independent, in that the lead buyer is passive and does not exert any kind of influence in knowledge transfer; however, suppliers are still able to derive knowledge transfer benefits from working with lead buyers. The suppliers use mechanisms such as “reverse engineering, observations, and human mobility to expedite upgrading their capabilities” (Ernst and Kim, 2002: 1424). In some of the companies in this study, these learning techniques (placement of designers where they can observe European fashion trends firsthand, learning by observation) have been relevant, as the following comments suggest:

We have our own office in Paris where our designers keep travelling very often...We made that office to...be closer to fashion [*MI(a), pp 4*].

My people learn a lot by seeing how these foreign designers work...They understand the colour stories, how to generate from one body to another; for example, pick up some collars from here and put [them] into another garment. They put it together and engineer a new

garment and they are constantly updated with what is happening [*LD*, *KT*].

Although these two comments indicate learning through observation or mobility, not many of the manufacturers are either able to set up marketing offices abroad and mobilise their designers by sending them abroad. In addition, not many of the manufacturers have a collaboration- and information-intensive relationship with their buyers, with the buyers' designers coming to work with their designers in India, through which manufacturers' designers can learn through observation. Even through observing the design process, moreover, it is not easy for manufacturers to learn about the conceptualization stages of designing, due to the contextual and tacit nature of design knowledge, characteristics that are discussed later on.

#### **5.15.2 Buyer's own capabilities**

The above section has highlighted an important factor affecting the upgrading prospects of IGMs who link up with lead buyers, and that is the buyers' own capabilities. What is evident from discussions with manufacturers is that buyers vary in the extent to which they can serve as knowledge repositories, and this is true of even lead buyers. Those buyers that are small and cannot be seen as lead firms tend to rely heavily on the manufacturer for ideas and design expertise. Manufacturers in such cases learn through experimentation and trial and error in order to get the desired effect required by the buyer. In other cases, larger buyers may want to cut their design costs and thus look for capable suppliers who will supply them branded products, as was the case with two companies, TS and BK.

#### **5.15.3 Alternative factors**

In understanding how successful IGMs have developed and progressed to, and within, the design function, MI stands out as an exemplar case, making its experiences important to study, before comparing it to other case companies.

*MI is a fully integrated manufacturer and design is their core competency:*

Absolutely, we are a one-stop shop; we don't miss anything in the textile chain, except spinning the yarn. We dye our own yarn, we

weave our own fabric, we dye the fabric and process it, and then we also manufacture garments, so we have a completely vertically integrated organisation, and design is our forte, that's where we really focus on...We have a team of 25 designers over fabric and garment, business men's wear, women's wear, textiles, they are constantly churning out new ideas [*MI(a), pp2*].

MI holds an impressive client portfolio, including top end designers like Armani, Jean Paul Gautier, D&G, Hugo Boss, Valentino, and Tommy Hilfiger amongst others. In addition to these more high-end brands, MI caters to high street brands like French Connection and large retailers like M&S to make up a portfolio of 25 brands in total for whom they cater for.

The following comment on MI's experience with design indicates how a combination of alternative factors, as is subsequently discussed, was responsible for the ability to work with some of the world's top fashion brands:

We faced a lot of problems when we started, it all started with a...small change in the way we were doing business in a conventional way...making basic products, not experimenting too much...One fine day we got a client from France who made like 50 styles with us which is absolutely mind blowing, very different from what we had been doing...When those garments went on the rack in our show room we started getting reactions from whoever visited us on those garments, and that's when we realised that wow...there is so much potential doing something different. Only then you can win appreciation, win customers, and get into the streamline of things, you know, in whatever you want to do as a fashion driven company [*MI(a), pp3*].

#### **5.15.4 Chance or External Force**

'Chance' was an external force or shock that played an important part in instigating MI to change from producing 'standard' products to fashion-oriented products. In this case, the enabling change came because of chancing upon a French buyer who required innovative and creative designs; the buyer was the enabler of change.

Another company that has been highly successful in upgrading its activities has been UNI. They have not focused on design upgrading alone but have gone beyond and upgraded chains. The owner of UNI was previously a garment manufacturer who after his studies settled in the US,

opening a agency whereby he would source clients for his families' manufacturing company based in India. However all this changed through a chance meeting, as he explains in the following comment:

I ran my own business in the US where I happened to meet with Andy Todd. He lived in my apartment block, and is the now president of our affiliate brand, Steve and Barry's...[He] spoke to me about the core concept that makes Steve and Barry's, which engaged me then, and to date engages me...The Steve and Barry's concept was extremely challenging, and the philosophy of retailing merchandise at affordable prices was fascinating...On [a] gut feeling I moved back to India from where I initially started sourcing for them [*UNI(a), CU*].

Through this chance meeting UNI became the sole 'creative global procurement and solutions providers for Steve and Barry's (at the time claimed to be the fastest growing retailer in the states) [*UNI(a), MBA*]. The company's activities are described as follows:

The company is responsible for procuring all sellable and non-sellable merchandise, and its procurement portfolio includes men's, women's and kids' apparel, lifestyle products, accessories, footwear and wooden, plastic and metallic fixtures, etc. The company, which was set up mainly for sourcing and buying, now provides end-to-end procurement and retail solutions including sourcing, buying and negotiating, retail planning and new store projects, to name a few [*UNI (b), MBA*].

Thus the above case companies, MI and UNI, both show that upgrading into value added functions such as design or chain upgrading requires a certain amount of 'chance'. However, they also imply other factors such as identification of opportunity and actually pursuing the opportunity as imperative to their results. These are discussed in the ensuing sections.

#### **5.15.5 Recognising and grasping opportunities**

MI's success is not only a result of the chance occurrence of having come across and worked with a design-oriented buyer. It can also be attributed to the recognition and grasping of an opportunity. That is, recognising that other buyers' enthusiastic responses to their newly designed range of clothes presents them with the opportunity to focus on more design-oriented

products rather than standard products and in this way increase their attractiveness to more fashion oriented and lucrative buyers.

In the case of UNI, the respondent had a “gut feeling” and was “engaged” by the opportunity presented to him by the growing retailer Steve and Barry’s. However, other IGMs in this study have also chanced upon or recognised opportunities present in designing but have not been as willing to follow through with the opportunities. This is partly due to the cost involved in designing. Some feel design it is too risky. Others find designing a waste of their time due to previous bad experiences, or a hassle they would rather not have to deal with, as suggested by the following comments:

*Design costs and risk of rejection:*

A lot of expenses are there to do own design; expenses to develop the fabric, make the sample of the buyer’s choice...If you are the buyer, I don't know what is your requirement...[It is] hard to find the trends, and even colours [are] hard to find, so these are all expensive. So once all the buyers give all these details we can develop the samples; this is what we do...We don't use our designs...[If] they send [it] is better, because if I send 100 pieces, [there is the risk that] they don't accept, and so what is running they know better in USA” **[KL, Des1, 2]**.

*Design viewed as a hassle:*

There have been clients who say no for us to design. In a way we feel more comfortable because we think, OK, our headache is gone, this is what they want, just give it to them **[AT, Des1]**.

In both these cases design is viewed in a negative light. Some manufacturers see it as a risk concern and others as a hassle, thus they are unlikely to take up any opportunities from companies who would like them to design. However, recognising an opportunity is one-half of the success factors; it is an equally important step to actually go through with enacting the opportunity.



### 5.15.6 Enactment of an opportunity and positive experience of design

As MI's owner indicates, he took up the opportunity of working with more design intensive producers; although he admits, his initial foray with experimenting with design was neither easy nor lucrative. Thus, despite his past negative experiences with designing MI is willing to take advantage of the new opportunity, also in design, presented to him. This suggests MI is willing to take on a certain level of risk to enact the new opportunity. The varying perception of risk has been a major theme throughout this study and once again seems to play a role here.

In a similar manner, UNI also went with his gut feeling. He shut down his family business and started the new venture, being a sole contractor for an American retailer. However, risks do not always pay off, and since January 2009 Steve and Barry's has gone into receivership, greatly affecting UNI, as Steve and Barry's was UNI's sole client. At the time of interviewing UNI was asked about placing all eggs in Steve and Barry's basket, and whether there were plans to expand services to other companies. The response was as follows:

We have thought about this, should we be doing this [global procurement solutions] for somebody else [other retailers besides S&B]? Right now no...Steve and Barry's has had a 70% growth every year, and we are not talking about a market like India where retail is booming in itself, we are talking about a market that is already matured and plateaued, which is the US, so in a plateaued and mature market we are having 70% growth. So all our energy is going into feeding that requirement, if a few years down the line, two and three years down the line, if S&B does plateau its growth in stores, I think that will be a calmer stage that we will reach...[Diversification] may be an option [then] because we have the expertise in place [UNI(c), FP].

Since the interview, UNI have opened up their procurement services to a wider clientele.

Alternatively, some manufacturers, like TS, adopt a wait-and-see policy. Even after buyers asked TS to design consider design for them, and thus presented TS with an opportunity to participate in the design function; they were reluctant to grasp the opportunity. It was only after their colleague succeeded in adopting design activities in their operations and TS saw how lucrative it was did TS attempt to foray into design by investing in a design studio and participating in design activities for the buyer. Thus, it took time for them to be convinced of the

importance and benefit of upgrading to design, a risk they were themselves not willing to undertake initially.

#### **5.15.7 Enabling factors of technology & a conducive industry environment**

Another enabling factor has been the use of technology. Using specific forecasting websites such as WSGN allows many of the design-oriented manufacturers to overcome the issues they face with the contextual nature of design or location practicality of design. This particular website is highly sophisticated, allowing designers to pick the latest trends, colours and style that are possible for oncoming seasons. However, these websites require skilled designers who have the knowledge to make use of the content of the websites effectively. To this extent, IGMs have an advantage due to the availability of trained and skilled design graduates from institutes such as NIFT, as suggested by MI in the following quote:

There is a lot of research that goes in. Our designers are firstly qualified; they are all from NIFT...and it's affiliated with...FIT New York, and they are working very closely with fashion. They have been through the grind for four years of their studies. They know what pattern making is all about; they know what a form is all about; they know...how to predict trends, and they have been qualified to learn the technical part of the whole business as well...We support ourselves with very expensive websites like WGSN, where we subscribe for a year and we pay a fortune...On those web sites we get the latest trends of what's going on, what was yesterday in Milan, it's in the news...So we are very much in touch with what's going on, and then we have our own office in Paris where our designers keep travelling very often [*MI(a), pp 3*].

Manufacturers like UNI have employed their own ERP (Enterprise Resource Planning) systems (which they constantly tweak and fine-tune to suit their specific needs) to monitor and coordinate the varied value added functions they offer their clients. Other companies also talk about certain other technological advances that have enabled them to upgrade their functions, like CAD (computer aided design), which allows for more accurate sizing and pattern cutting, and thus enables the manufacturer to attain a level of quality and attract clients who require these.

### 5.15.8 Innovation and Creativity

UNI in particular seems to have been the most innovative of the manufacturers in this sample, and according to conversations with various other industry heads, UNI can be seen as advanced in the garment industry as a whole. Thus, it becomes important to understand what it is that makes UNI stand out from most manufacturers as well as contractors like Li & Fung and what factors have helped achieve success. The company is an international conglomerate, including ten satellite offices worldwide. The Mumbai office, which is the primary division of the UNI Group, serves as a nerve centre for the supply chain activities (including sourcing, merchandising, quality assurance and logistics), retail operation solutions, and strategy operations of the group. UNI is thus more than just a supply-chain logistics company or a procurement company. They have incorporated a varied mix of functions upon which they have built their value addition activities, as suggested by the following comments:

The supply chain bit of our company is 40% of what we do as a company. The other 40% is what we call retail operations solutions, which is again for [Steve and Barry's], and that started off as a transactions division of the company. So...the BPO boom was there about four years ago, so S&B said the boom is there in India, so why don't we offshore some of our processes there?...That's why we took over payroll and accounts payable and so many transaction processes. Today retail ops have grown. We have visual merchandisers that sit here and decide stores for S&B in the US, we have media buying agents that look after all S&B media in the US from this office space, whether it's a radio, whether it's auto ad or a print ad, they will sit here, assuming there is a store opening in Cincinnati, they would do demographic research - what's the kind of population mix that exists there, assuming it's Hispanic population, based on that which radio do I need to be on, which newspaper do I need to be on. Research is carried out here, they will not only research, they will give a call to the media in US and negotiate a price for the ad...So they outsource the whole media function...So we have media buying; we have a team of about 15 chartered accountants to identity fraud, in retail pilferage confirming 96% of the total, which is a lot of money...This is all done within UNI, not outsourced to any other company...So supply chain is only one section of what we do...Maybe I would compare our supply chain division to a Li & Fung, but then there is a whole 60% remaining that we do and the strength we are...which is not comparable to Li & Fung [UNI(c), MBA].

We have a team called engineering and facilities, so if something breaks down in the...S&B store in the US, they dial a number which

will reach us and it is these guys, engineering and facilities, it is their prerogative to go research. Assuming someone's light bulb is broken, they'll call engineering facilities here, who will then go ahead and see to it, how to get it fixed, and every time we need to get it fixed, because you have to remember S&B is a very price sensitive company. We offer pricing that is shock value, it's not even cheap, literally shock value, so every time they are making a purchase, even for a bulb, we put in depth research to make sure they get the cheapest bulb of best quality before we go and install it in the store. So it's a very large process, ... we can't go and outsource to somebody else, it's not a call centre, it's not like they have five or one person ... they have to call when the bulb breaks. ... They have to do their homework and they have to do it every single time. Every time they get a call, they have to go through this process [*UNI(c), VA*].

This mix of activities was built up gradually and required persistent innovation and creativity on the part of the decision makers, as well as a willingness to take up the opportunities that were presented to them (for example, making use of the BPO boom). The owner further discusses the role of innovation, luck, and creativity in UNI's success:

I do believe that it has to be a combination of both innovation and luck. Innovation forms a core criterion for guaranteeing success in any field, be it business, a specialisation, or a trade of any sort. My strong philosophy is that it is a person's creativity that allows them to stay ahead in the game with groundbreaking ideas and creativity, and it is this crucial factor that defines success [*UNI(a), PI*].

Thus, the idea of being creative has helped them to build their business concept and grow their business to what it is now:

You have to think six years ago when we started this company, we were three people – one leader and two assistants – and that's how we started off; no one, whether it was Steve or Barry or Avi [all managing directors], ever thought we would be as big as we are today. We were not built to be a global procurement company; we were going to be a company who buys t-shirts for Steve and Barry's, so that is how the vision and the scope...has grown [*UNI(c), FU*].

Thus, it seems that the success of both MI and UNI is based on a combination of factors highlighted in Figure 26, which distinguish them from various other manufacturers in this study who, even when presented with opportunities, have not been quick to grasp them. Risk

perceptions have played a role in the reluctance to advance to higher more value added functions that possibly require more investments. It is possible that company size has something to do with this, but UNI have achieved phenomenal growth rates despite having started very small. Sometimes reluctance to upgrade, although interpreted as a problem, is seen as strategic by the manufacturer. For example, TWW had the opportunity to become a first tier supplier to some of the biggest industries requiring work-wear however they saw that this could potentially harm their existing customer base who would see them as competition. In addition, they were unlikely to have the potential to earn as much through relying on a few large contracts as from the exposure they received working as a second tier supplier.

### **5.16 Conclusion to Section 3**

Overall, IGMs in this study show a full range of upgrading activities, from product to functional to the uncommon inter-chain type of upgrading. A new upgrading category, market/channel upgrading, was also necessary to incorporate,. The focus in terms of upgrading has been particularly on the higher-value added function of design. Surprisingly, majority of the manufacturers are involved in designing. However, findings suggest the practice of design is a black box which when opened reveals varying degrees of design. Thus, it has been necessary to understand the varying degrees at which design takes place. Furthermore, manufacturers find it difficult to upgrade within to certain levels of within the design function, in particular to the conceptual level, due to the tacit knowledge involved, and the location practicality or contextual characteristics of design.

### **5.17 Conclusion**

This Chapter has presented empirical findings addressing the three main research questions asked in this thesis, and have been arranged under three sections. The findings suggest a host of factors, some supporting extant literature and others emergent themes, influence and shape the internationalisation and upgrading practices and prospects of IGMS. The ensuing chapter, Chapter 6, analyses and discusses these findings in light of extant literature and in light of the conceptual framework presented in Chapter 3.

# Chapter 6 Discussion

## 6.1 Introduction

This chapter provides a discussion of key findings which are themselves positioned within current debates regarding firm internationalisation and upgrading. Furthermore the discussion helps to confirm or adjust the relationships portrayed in the conceptual framework drawn at the outset of the study, as presented in chapter 3. The chapter is organised in three sections; the discussion presented in each section collaborates with findings from the three main sections of the previous chapter, Chapter 5. The first section considers the internationalisation process of the Indian garment manufacturer (IGM). It is evident IGMs are reluctant to use Diaspora networks to access foreign markets. They have nevertheless been able to internationalise at a rapid pace, and whilst no one theory of internationalisation suffices in fully explaining IGMs' internationalisation practices, preliminary evidence strongly suggests the majority follow a Born Global/ INV type of internationalisation pattern, this and the relevance of other IB concepts are discussed in the explanation of IGM internationalisation patterns.

The second section discusses factors that affect IGMs choices regarding their internationalisation activities, the markets they entry and the buyers they prefer to cater to; it emphasis the importance of alternative contextual factors, other than the lead buyer, in influencing and shaping the decision undertaken by IGMS. The final section, Section 3, of this chapter discusses the factors that help or hinder the upgrading prospects of IGMs. Once again emphasis is placed on alternative factors in explaining IGMs upgrading practices and prospects. The chapter closes with an aggregate discussion of IGMs internationalisation and upgrading prospects. In addition, the conceptual framework drawn at the outset, in Chapter 3, to guide this study is revisited; wherein emergent relationships, as a result of having collected data and analysed findings are incorporated and any old linkages, drawn prior to the study, are modified to achieve a greater level of accuracy in understanding of the phenomena under study and to enhance the robustness of the conceptual framework.

## **Section 1 Diaspora & ethnic ties & the internationalisation practices of IGMs**

### **6.2 The Diaspora Network Perspective**

Despite prior convictions, based on the case of internationalising Chinese garment manufacturers (Elsayed, et al., 2006; High level committee report, 2004) and Indian software developers (Khanna et al., 2007; Pandey, et al., 2004; Saxenian, 2002a, 1999; Saxenian, et al., 2002), empirical data from this research suggests limited salience of the concept of Diaspora networks and ethnic ties in explaining the international expansion trajectory followed by Indian garment manufacturers (IGMs). In addition, IGMs resist connecting with Diaspora networks to further their international business activities in spite of the existence of large Indian Diaspora communities in key Western, garment, consumer markets of the US and UK (Nanda and Khanna, 2009). Instead IGMs employ existing, formal network channels located in major Indian garment exporting cities like Bombay, Bangalore and Delhi. These observations have led to various important discussion points that pertain to the use of Diaspora networks as a concept explaining the internationalisation process of the firm and in addition have also led to exploring the relevance and contribution of alternative internationalisation theories in explaining the internationalisation activities and patterns of IGMs.

The results from case study data suggest the possibility of country-specific network-based models of international expansion trajectories followed by garment manufacturers; that is, it may be necessary to develop an Indian network-based model that can be contrasted to a Chinese-network based model of initial expansion. The obvious distinguishing feature between these models is the type of network used in the initial stages of accessing foreign markets. In the case of Indian garment manufacturers initial access has been through the presence of formal channels, such as agents and buying offices, as opposed to relying on Diaspora networks as has been the case for Chinese garment manufacturers.

The data from this study sheds further light on the range of formal network channels available and used by IGMs and how these channels are fostered. The Indian model of international expansion could be used by newly internationalising garment producer countries as an alternative template to follow to the Chinese model, especially in cases where there is a lack of a

knowledgeable Diaspora base upon which the newly internationalising country can rely. However, the success of emulating the Indian model by a newly internationalising garment country requires a look at what conditions helped India attract the presence of formal channels, particularly foreign lead buyers locating their buying offices in India, and whether these conditions are present or can be developed by the emulating country.

Unfortunately, it seems, mimicking the Indian trajectory of international expansion is not an easy task to achieve. India benefits from a rich and well-established history of cotton and textiles production, dating back to the Indus valley civilization (3300-1300 BC). In turn these traditions have over the years encouraged the emergence of a diverse range of related and supporting sectors from spinning of cotton into yarn, to fabric dyeing and accessory manufacturing more recently. Thus establishing a strong supply chain of related products and services enabled Indian producers to progress easily onto garment manufacturing activities where raw materials can be easily sourced locally, cheaply and relatively quickly, enabling manufacturers to build strong and reliable networks. Consequently, large foreign buyers and garment traders view India as a key sourcing hub for their garments, deeming the area as a reliable and economical producer due to the well entrenched, developed and fully integrated local supply chain. This has resulted in many large retailers locating their buying offices in India.

Having proposed a possible Indian model versus a Chinese model, data from this study further helps understand and clarify how these models came to exist, that is, why India, unlike China, has not been able to rely on Diaspora networks as initially thought. Here Kapur's (2001) work on Diaspora networks offer good explanatory insights as to what characteristics the Diaspora must possess to be useful to local firms in engendering trade and under which conditions Diaspora networks act as alternative and replacement channels that can be used by local firms for enabling cross border trade. These two points sighted from Kapur's (2001) work are most relevant in explicating findings from this research and are applied to cases pertaining to this study as shown in Table 38.



Table 38 Emergent findings that link to Kapur's (2001) work on Diaspora

	<b>Insights from Kapur's (2001) Work</b>	<b>Explanation of insight</b>	<b>Relevance of Kapur's work to emergent findings from this study</b>
1	<b>Diaspora's potential importance</b>	<i>Diaspora characteristics (e.g. skill/education; tradable sector versus non-tradable sector) make it potentially important in engendering trade, successful links or transfer of knowledge and technology.</i>	Indian Diaspora may not have the requisite prior industry knowledge in garmenting to be a useful network that IGMs can rely on and tap into, unlike the case of Indian IT industry. Thus, Indian Diaspora cannot help with industry knowledge or in forging connections between key buyers and IGMs, as with Chinese manufacturers. Therefore, learning from Indian Diaspora through knowledge or technology transfer is impossible, again unlike in the case of local Chinese manufacturers who benefited greatly from FDI, technology and knowledge transfer from their Chinese Diaspora.
2	<b>Significance of Diaspora as an informal channel of influence</b>	<i>The weaker are the formal institutional structures and environment of the home country the greater is the significance of Diaspora networks making the Diaspora's informal channel of influence stronger.</i>	The formal channels of accessing foreign markets seem to be well developed in the case of the Indian garment industry, agents, buying houses, buying offices present in India; this has also possibly affected IGMs' need to build or rely on alternative networks such as Diaspora.

*Source: Adapted from Kapur (2001: 276)*

The first insight explicates how a lack of industry specific knowledge and contacts renders the use of Indian Diaspora ineffective in helping IGMs to trade internationally specifically with lead retailers based in the West. As will be explained later if one is not taking a GVC-based focus then there are indications of use of Diaspora networks by Indian to trade internationally, but not with lead retailers.

Historically Indian Diaspora have tended to be professionals trained in the field of medicine, engineering and IT, whilst Chinese Diaspora have tended to be more entrepreneurially orientated. Thus, as a result, Chinese Diaspora has played an important role in connecting and linking local Chinese manufacturers with large foreign buyers. There are two explanations for this. Firstly, the Chinese Diaspora is mostly made up of traders who have been dealing in garment and toy industries for a long period of time and unlike Indian immigrants in the US are

not predominantly professional's. Secondly, the Chinese Diaspora has been crucial in developing East Asian networks. They were once manufacturers themselves, and during this time built close contacts and working relationships with large, foreign, lead retailers. As costs in East Asian countries where they were located rose and other low cost locations sprang up, they created networks to migrate the manufacturing to these locations, while still retaining the coordinating function. Thus, to this day they remain the middlemen for many large retailers based in the West.

In comparison Indian manufacturers have taken a different path wherein they have had a history of manufacturing and exporting fabric, mainly jute, cotton and silks; garmenting is a very recent industry, started in the late 1970's, a whole decade later than Chinese garment exports. Therefore, the working relationships with larger foreign retailers are comparatively newer than those established by the Diaspora Chinese.

These points are illustrated by the experience of one manufacturer from this study. MI suggests that when he tried to set up business in Germany with an Indian businessman based there, it proved to be too difficult as the Indian in Germany had no knowledge of the garmenting business. What this example reflects is that it is not enough to expect to internationalise the business operations abroad through forming ethnic ties or Diaspora networks, without the presence of working knowledge or experience of the business or something else that can be brought to the table, which gives the collaboration some synergistic value. In the case of local Chinese manufacturers and Hong Kong based contractors, the Hong Kong contractors not only brought with them their long established network of buyers but also their experience and knowledge of value added functions within the manufacturing process, thus helping Chinese manufacturers achieve certain requirements, standards and supplementing them with industry-specific knowledge. Indian manufacturers do not seem to have this form of industry-specific Diaspora expert base with experience or an already established network of relevant contacts in the garmenting business.

Furthermore, a GOI report (GOI, 2004) supports this lack of Diaspora networks in garment manufacturing; however it contrasts the lack of use of networks by the Indian garment sector with the important contributions networking with Diaspora has made to the Indian IT sector. The local Indian IT industry has made use of Indian Diaspora based in the US who are trained IT

professionals and who have migrated to the US, occupying high up management positions within software companies in the US; indeed, many of the software companies are themselves headed and owned by Non-Resident Indians (NRIs). Hence, these Diaspora are able to influence the hiring strategies used by companies and have been integral in outsourcing work to Indian companies. In the case of the garment industry, Indians have not been prominent at the top level in garment retailing companies; the nature of the relationship is rather that of a business-to-business transaction than employment of skills abroad.

Thus far the above presented discussion has adopted a GVC-based perspective of local firm internationalisation in that we have concentrated on understanding whether using Diaspora networks has been effective for IGMs trying to access large foreign buyers/retailers or lead firms to the exclusion of alternative types of buyers that maybe smaller and not necessarily situated in the foreign markets of Western countries. If one was to test IGMs' access to a broader range of buyers, rather than confining the results to large retailers, then data gathered in this study indicates that some IGMs do use Diaspora networks or ethnic ties in engendering cross border trade. However, the evidence is mostly confined to two case companies (PF and IT), who discuss that being Sindhis themselves they have used Sindhi buyers based in Dubai, UAE and in Hong Kong. These isolated cases indicate there may be certain groups of Indian Diaspora who do use ethnic networks; the cases indicates the rich mix of cultures and people from varied background that constitutes the Indian sub-continent and the major ethnic business groups like the Gujarati's the Parsi's and the Sindhi's amongst others may to some extent have different practices in terms of their attitude towards the use of Diaspora networks to access foreign markets and so to this extent need to be researched further.

Kapur's (2001) second insight supports the discussion previously made regarding the existence of formal institutions or formal channels which Indian manufacturers already use and find adequate, eliminating the need to create new channels through linking with Diaspora networks. However, Kapur's (2001) study fails to emphasise an important point regarding the direction of networking; that is, the initiative to build or seek out beneficial Diaspora networks seems to be taken by Diaspora members themselves and is driven by their needs rather than those of local manufacturers. Furthermore, the Diaspora members are in a better position to assess the possibilities of a successful linkup as they are aware of both target and home country possibilities and based on this are able to connect between the two and gain from such

connections. This will also affect the initial direction of trade, which would initiate from the migrants' host countries rather than the manufacturers'.

Furthermore, when studying diaspora networks the findings show IGMs to be reactive rather than proactive in terms of building and utilising Diaspora networks to access international buyers or foreign markets. For example, insights gained from research on the influence of diaspora networks on fostering trade, especially that conducted by Saxenian (1999, 2002a, b, 2005) Kapur (2001), Tewari (2005a) and Rialip et al. (2005), tend to approach the topic from a unidirectional perspective. That is, their findings are a result of adopting a biased perspective stemming from only researching networks that are set up by the Diaspora while ignoring views from locally based suppliers and their perceptions of network formation. This realisation could affect the way in which studies of networks are conducted. That is, including the perspectives on networking of locally based suppliers allows a fresh insight and establishes a two-way understanding of network formation and use in international business activities.

Overall, and in answer to the first research question posed in this study, it can be said that Diaspora networks have not played a role in IGMs' internationalisation of their operations, as was assumed at the outset of the study. Instead, various alternative, more formal, channels have been used by IGMs seeking to access Western foreign markets and the lead buyers that exist in these markets, with some evidence for Diaspora networks used by IGMS to access less mature foreign markets and the non-lead buyer type garment retailers. IGM's reluctance to employ Diaspora networks to access foreign markets can be attributed to a combination of factors that range from IGMs' desire for self-sufficiency and their desire to preserve their independence, a factor also evident in a study on Cypriot manufacturing firms, where some firms avoided developing networks for similar reasons (Dickson et al., 1998), to factors associated with specific characteristics Diaspora must possess in order for them to be considered as important networks when accessing foreign markets, as is informed by Kapur's (2001) work.

### **6.3 The Born global/INV based viewpoint**

The born-global/INV based explanation of firm internationalisation seems relevant to a large proportion of the internationalisation behaviour observed among Indian garment manufacturing

firms. The case firms have predominantly achieved an international presence through exporting to foreign buyers in a relatively, if not exceptionally, short time and therefore are likened to the behavioural patterns and practices associated with born global/INV type companies.

These findings at first seem rather surprising and unusual as such INV/Born Global firm characteristics are not commonly associated with a traditional industry like garment manufacturing. Instead research and studies identify such INV type behaviour, for the most part, in firms of high-tech industries<sup>10</sup> like the software and IT industry or firms linked with leading edge technology products and niche markets such as scientific instruments or machine tools (Moen and Servais, 2002).

So then an important question to ask is how it has been possible for firms from a traditional industry like garments to access foreign markets at such a rapid pace. What channels have allowed them to gain access at inception? Initial assumptions, before fieldwork, were that IGMs may use Indian Diaspora and Ethnic networks or ties based in target export markets. However the above discussion on Diaspora networks negates such preliminary assumptions. Instead findings from this study reveal the use of formal channels by IGMs, as also discussed above.

However, there are four exceptional cases in this study that at first suggest they do not follow the Born/Global or INV route to internationalisation, and instead follow a more traditional path. Moen and Servais (2002) highlight the differences between traditional firms and born global firms by focusing on the speed of internationalisation. Their research suggests traditional firms start by focusing on establishing a strong domestic base before delving into international operations such as exports. These firms have been typically operational in the domestic market for an average of 27 years before their first attempt at exports and are thus quite mature and possess greater experience than the born global firms in terms of operating as a business. In addition a traditional firm's foreign market sales constitute approximately 15%-20% of total sales. The average age of the four companies that have not followed a traditional path is 25.1 years, and therefore they closely fit Moen and Servais' (2002) definition of mature, well-established companies.

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<sup>10</sup> Research on BG/INV type companies also highlights the fact that most companies are SMEs. This is to an extent true of the companies in this study, which are predominantly small to medium sized business. The only exceptions are KK and MI, whose annual sales figures put them in the category of large businesses, according to the EU classification using company turnover.

However, upon further investigation of the activities of the two of case companies, MI and KK, who initially followed a traditional path to internationalisation, the findings suggest that in fact these companies have evolved from following a traditional path to adopting a more rapid pace of internationalisation akin to Born Global/INV type firms. This change in pace and thus pattern of internationalisation can be explained using Spencer's (2003) concept of a 'born-again global' firm. According to Spencer (2003) there exist companies that focus their business at inception on the domestic market, but at some stage during their activities, due to a shock (either internal or external to the firm), re-invent themselves by undergoing rapid internationalisation. The shock may constitute a change in management, a renewed source of capital or even the change in the buying patterns of a domestic customer, all of which would drive the firm to re-assess its domestic orientation.

For case companies MI and KK their 'shock' event was a change in management. KK and MI's current owners are part of a family run business constituting the third generation of managers, their grandfather having set up the initial business. As a result of natural management succession within the family, both owners currently hold key positions within their firms, MI being the joint managing director and KK being the managing director. According to these 'new managers,' it has been their international vision and managerial direction that has led their companies to the business of exporting garments. This change in management presented a new source of opportunity seeking behaviour for the firms; the takeover of the family business by the younger generation constituted the 'shock' factor needed to rapidly internationalise, without having to first manufacture garments for the domestic market and proceed to the international market. Thus Spencer's concept of a 'Born Again Global' helps understand the change of internationalisation patterns of both MI and KK. Furthermore, literature from the field of International Entrepreneurship helps highlight the key role of the founder or Entrepreneur that has enabled the firms to rapidly internationalise at a later stage. In particular Knight (2001) points out the important role played by internationally orientated entrepreneurs, who at the outset hold an international vision, in enabling firms that are rapid internationalisers, as in the case of MI and KK.

#### **6.4 The mature IGM, de-internationalisation & the failed BG**

Nevertheless, with the exception of four companies, the majority of the companies in this study have followed a rapid pace of internationalisation from inception and thus at the outset can be ascribed to have followed a BG/INV path to internationalisation. However, Gabrielson and Gabrielson (2009) point out a main criticism of born global and INV type studies suggesting that they only focus on the early years of internationalisation of the BG type firm. Very little is known about the later years. Thus, questions such as how BG's progress from initial stages of internationalisation to later stages of internationalisation, and whether they have been successful, are rarely if ever addressed in studies. To this extent this study provides a valuable insight by contributing to knowledge of the more progressed born global type firm. Most firms in this study that have been identified as being BG/INV type firms have been in business, on average, for 26 years, and therefore provide interesting cases of a group of BG firms at more advanced stages of their business. This allows one to analyse what has become of their progress and whether they can be still considered as successful examples of BG type firms.

As discussed in Chapter 2 an unsuccessful born global can be identified in a number of ways, one of the main criteria being the lack of expansion of exporting activities to a global scale. This particular criticism holds true for the majority of the IGM's in this study who not hold a wide array of countries to which they export but instead mostly opted to focus their exports to specific regions, like the EU, or even single countries like the United States for their business activities. Using the strict definition of a successful IGM adopted by Gabrielson and Gabrielson (2009) could lead one to believe BG type IGMs have not been successful. However, firstly as suggested at the start, adopting a born global perspective is rather unrealistic for any firm and instead using the term born international seems more appropriate. Secondly, it is necessary to understand that IGMs have opted to confine their international activities to certain regions and countries and it is not necessarily their inability to access new markets that has prevented them from being present on a global scale. Design factors are involved here, as well as the fact that economies of scale from consolidating their marketing of clothes to specific markets make this more lucrative than spreading themselves too thin across a myriad of different markets with varying tastes and varying levels of maturity. Thus practical and strategic reasons have played an important role in influencing IGMs' decisions to remain regional or country specific in terms of accessing foreign export markets.

On the other hand, an alternative criterion of a failed BG, that seems to apply to a great extent to IGMs from this study, is the possibility of a the reverse process of de-internationalisation whereby BGs fail to grow internationally and instead turn to following a more traditional path of internationalisation. In essence de-internationalisation can be seen as adopting a broader concept of internationalisation, as discussed in Chapter 2. Many IGMs in this study have suggested the course of de-internationalisation is a very real future growth trajectory for their company. The emergence of an organised retail sector and the resulting retail boom currently experienced in India has fuelled the domestic need for ready-made garments. IGMs see this as an opportunity to cash in on. This domestic opportunity is easier to cater to than the increasingly difficult consumer markets of the West whose economies are currently facing severe economic recessions. Hence, IGMs feel the need to re-align their internationalisation strategies to accommodate the new opportunities found in their own domestic markets.

Furthermore, the Indian markets present the companies with greater opportunities to function not only as manufacturers, but to upgrade to the design and retail functions of the value chain due to the ease and familiarity of designing for the home market; something that is often difficult to achieve when servicing Western mature markets due to location barriers, as is further elaborated in the ensuing discussion on design upgrading.

## **6.5 Extra-regional expansion & stages theory**

Domestically orientated case companies PRO and SD can be said to have adopted an alternative form of internationalisation to the other case companies in this study, which Wiedersheim-Paul et al. (1978) conceptualise as 'extra-regional expansion'. Extra-regional expansion is considered in the literature as encompassing a broader definition of the internationalisation process, as it specifically looks at the pre-export activities of firms. PRO and SD's activities fit the extra-regional expansion conceptualisation of internationalisation. Both companies are branded retailers and have opted to focus on expanding their retail outlets to 'new markets' within their own domestic market that is India. PRO was founded in the city of Mumbai (Bombay), but has since expanded to 68 cities within India. PRO's strategy was based on first expanding to tier



one<sup>11</sup> metropolis cities within India and then once this was saturated the next step was to establish their retail stores in tier two metropolis cities. To date they have accomplished both stages of their expansion plans. Similarly SD is also a branded retailer, starting its operations in Ahmedabad, but has since expanded its business through a countrywide network of distributors and department stores located in first and second tier metropolis cities. In an effort to further expand SD's presence across India the company has opened exclusive retail stores across various tier one metropolis cities in India.

Although both case companies have to date focused on expanding across distant markets within India, they have dabbled with exports. In the case of SD exports to Kenya were a result of a fortuitous overseas enquiry from a foreign buyer visiting a domestic trade fair, however SD feels that there is still great scope for expansion for their brand within India and does not feel it would intentionally seek out foreign export markets. In the case of PRO, who at inception was targeting the foreign market, the firm de-internationalised very early on to cater to the domestic market, being the first branded retailer in India, however since having extensively expanded in India they have thought a possible next step would be to expand to foreign consumer markets with similar tastes and maturity, UAE being a possibility. Both these case companies support the extra-regional expansion theory. In the case of PRO it is possible to explain their internationalisation behaviour using a combination of concepts. On the one hand it could be seen as a failed BG as a result of having focused on the domestic market, and now seems to be undertaking a more traditional more gradual path to internationalisation by first expanding in the home market before considering expanding to psychically close foreign markets. At the same time extra-regional expansion, which explains the pre-exporting phase it is currently in now, is also very important in explaining its current business operations and in defining the possibility of its future export forays.

Analysis of the case data brings into question whether IGMs can be classified as true born global companies or even and perhaps more accurately, born internationals or international new ventures. The decision taken by majority of IGMS to de-internationalise in the near future and focus on the domestic market suggests a possible slow down if not end to their international activities. This could imply that IGMs fit the category of a failed, born-international firm, if not

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<sup>11</sup> TIER 1 are those cities where population = +5 million; TIER 2 are those cities where population = 1 million to 5 million; and TIER 3 are those cities where population = less than 1 million.

a failed born-global firm. However, labelling IGMs as 'failed' could be viewed as inaccurate as the term 'failed' in this context suggests an inability to continue practicing business in foreign markets, whereas this is not necessarily the case for IGMS. Instead it would be more accurate to say IGMs have opted to re-align their strategy to account for the new opportunities present in their domestic market due to a booming domestic retail sector compared to the depressed and recessional retail business of western foreign markets that they currently service. The implications of this are twofold. Firstly the findings highlight the relevance of traditional theories such as the stages model and 'extra-regional expansion' model of internationalisation to firms that have also experienced the more recent internationalisation conceptualisations espoused by born global and INV theorists.

Secondly, as suggested by Luostarinen and Gabrielson (2002) the driving force behind BG type internationalisation is often a consequence of home market conditions that push firms to seek out larger foreign markets for their products, as has also been true in the IGMs, however the same principle can be applied in reverse. That is, positive economic changes in the home market, which are comparable to if not better than foreign market conditions, can act as a pulling mechanism whereby companies retract from international markets and instead find it more lucrative to focus their investments in their home markets. Thus on the surface home market conditions can be said to be responsible for the failure of born global companies and for triggering a switch to the more gradual traditional route to internationalisation undertaken by the firms. It would be interesting to follow the progress of these firms and to see their activities upon re-entering the Indian market and whether this leads ultimately to a re-internationalisation pattern that is consistent with a traditional stages based model of internationalisation.

As pointed out by various authors (Rialip et al., 2005; Servais and Rasmussen, 2000; Oviatte and McDougal, 1999) BG theories lack comprehensive explanations, and to this extent this study has gone some way in contributing to a better understanding of the existence and internationalisation patterns followed by more mature set of born global firms, who have survived past the initial inception phase that earned them their initial born global status. However, for comparison purposes and to gain a better understanding more studies are required on the possible similarities and differences that born global companies from low-tech industries have with other BG companies from alternative low-tech industries and whether these can be compared and contrasted with born-global firms from high-tech industries.

## **6.6 The Resource-based & Knowledge-based view**

Case study data suggest a broad resource-based explanation for aspects of the internationalisation patterns reported by IGMs investigated in this study. IGMs suggest they use various types of resources ranging from physical and human capital to institutional capital to achieve competitive advantages that enable them to compete internationally as well as sustain these advantages over time. Examples of physical capital include IGMs' investments in semi- or fully- integrated set-ups (case companies MI and CG support an almost full range of manufacturing activities within a garment manufacturing production chain which is carried out in-house). Manufacturers supporting such set-ups seem to be more the favourable suppliers to foreign lead buyers. Manufacturers believe buyers feel more secure when all operations are carried out in-house, as this reduces lead times (time it takes from instructing a production order to being present in buyer's shop) as well as ensures quality standards are met. However, IGMs do not themselves always support this view, even those manufacturers who are fully integrated, e.g. MI, who suggests an integrated set-up does not always ensure meeting lead times and that it has had to rely on outside suppliers to source various fabrics.

Accordingly, some IGMs (e.g. case companies TI, NH, and BK amongst others) prefer to run asset-light manufacturing set-ups by outsourcing non-core production operations and activities to third party operators. In such cases, where activities are outsourced, entrepreneurs rely upon their ability to build dedicated and reliable sourcing networks, which enables them to meet buyers' requirements of timely delivery and quality standards. Access and ability to build such networks can be viewed as a unique resource (Lu et al., 2010) and are not always a given advantage. The building of sourcing networks by IGMs is made easier due to yet another resource available to them, that is, the unique positioning of the Indian textile and garment industry which supports a fully integrated, backward extended, supply chain. Thus building such supplier networks becomes comparatively easier for Indian based manufacturers due to a multitude of locally available network of related industry suppliers and sub-contractors present in India itself. This readily available pool of resources enables IGMs to be both cost and time effective when servicing lead buyers needs of timely deliveries and maintaining agreed quality levels.

IGMs report the benefits of country specific institutional factors such as design training schools like NIFT (National Institute of Fashion Technology) and NID (National Institute of Design), which have been integral to their ability to compete internationally in a more sustained manner. Such institutes provide them with highly-skilled design students, technicians and fashion managers who have enabled them to strategically position themselves as capable suppliers that can offer a fuller service to lead buyers. The issue of being able to upgrade their activities to the design function is presented in depth in proceeding discussions on design and upgrading.

Overall, case study data suggests there exist a “unique bundle of idiosyncratic resources and capabilities” (Grant, 1996: 110), not only within individual firms but also resources available to firms as a consequence of being rooted in the institutional environment that the Indian garment and textile industry provides the firms with. These resources include firm-specific factors such as access to sourcing networks (Ruzzier et al., 2006) and maybe to a lesser extent some companies’ investments in integrated set-ups. The resources are also extended to include institutional capital such as design and fashion institutes, which provided the knowledge base for competing in international markets in a more sustainable manner. Furthermore, the entrepreneur himself, who is normally the main decision maker and main manager, can also be identified as a key resource (as has been the case in helping born again IGMs like MI and KK to internationalise their garment business).

## **6.7 Conclusion to Section 1**

The above discussion pertaining to the internationalisation of the IGM recognises it to be a complex process wherein no one theory fully explains a manufacturer’s internationalisation trajectory and indeed a combination of theories are needed to chart their activities, which requires approaching the topic of internationalisation using a broader more inclusive conceptualisations of the internationalisation process. Concepts such as the extra-regional expansion (i.e. relating to the pre-exporting activities of firms) and the concepts of de-internationalisation and recognising and accounting the case of mature born globals have all been crucial in enabling an accurate portrayal of IGMs’ internationalisation practices. It is also clear from the above discussion concepts of Diaspora and ethnic ties are unsuitability explanations of IGM internationalisation practices. This research shed lights both in terms of

explaining why these concepts, despite their initial assumed relevance, are in fact irrelevant in explaining IGM internationalisation and instead highlights alternative routes available to IGMs.

## **Section 2 IGMs internationalisation, market & buyer preferences**

The preceding section provides an insight into the internationalisation patterns of IGMs. This section builds on the preceding insights and establishes what factors enable or hinder IGMs' internationalisation prospects, and influence their choice of foreign markets and foreign buyers. Findings from this research lead to a questioning of the dominant view held by GVC studies regarding the key role played by lead buyers in influencing and manipulating the internationalisation prospects and choices of local manufacturers, whether the influence is negative or positive.

### **6.8 GVC approach**

Global value chain (GVC) theory has come to be an important and influential conceptual framework that guides much development study research and policy formation on how local producer firms based in developing countries and emerging markets can participate successfully in global trade. The theory examines these issues by studying the relationship and operational dynamics between large retailers or lead buyers and smaller local manufacturers who feed into these buyers' production networks. Thus GVC based research approaches the study of internationalising local producers particularly from a lead buyer's perspective. That is, GVC based studies assume the internationalisation prospects and choices made by local producers is predominantly determined and manipulated by the needs, requirements and activities of large foreign lead buyers, as it is these buyers' production networks that the small local manufacturers participate in to internationalise their business. A GVC based approach helps examine lead-firm related factors that help or hinder the internationalisation prospects of local producers, and to this extent guide policy makers to draw policy recommendations that foster positive outcomes for local producers attempting to participate and gain from international trade

However, having examined the types of foreign buyers IGMs cater to, this study points to a minimal reliance on the global production networks of large foreign buyers, or 'lead firms', to access foreign markets. Case data reveals that the majority of IGMs produce for the small, branded, fashion retailer rather than the larger buyer or 'lead firm'. Furthermore, many of the smaller IGMs (which make up the bulk of case companies represented in this study and representative of the Indian garment sector) tend to show a strong preference for the smaller branded retailers over a large lead firm. The small branded fashion retailer is not the typical 'lead firm' of the GVC literature. Whilst GVC-based studies can be criticised for their lack of reporting what specific characteristics they have used to define a 'lead firm', Gereffi et al., (2005) distinguishes 'lead firms' from other types of buyers by suggesting they have control over consumer demand and access to major resources such as product design, new technologies, and brand names that generate and earn them the most profitable returns in the industry. He refers to such firms as "the most significant lead buyers".

Many of the small, branded, fashion retailers that IGMs in this study work with possess some combination of the characteristics of a 'significant lead buyer' but not necessarily all. For example, some could be seen as having a well known brand name and consumer following, but not all could be said to control product design or access to new technology. In fact, according to the IGMs from this study, many of the smaller retailers, and even some of the larger retailers, rely on the manufacturer for design knowledge and guidance or at least inspiration on new techniques and applications that can enhance the look of the garment and increase its value. Thus to this extent buyers in this study do not seem to strictly fit the definition of a 'most significant lead firm' and sometimes do not even demonstrate characteristics of a 'lead firm'. Instead they are more identifiable as smaller retailers who have a well known brand presence through having built a reputable brand.

Furthermore, such smaller fashion retailers do not operate from a large retail format spread across numerous global or nationally based locations, nor do they produce standard garments in mass quantities, all characteristics that have been often cited in GVC research as characteristic of lead buyers. Instead such retailers work from a 'boutique' concept and rely on creating an impression of exclusivity about their products. So rather than have their products regarded as standard, easily available, mass manufactured, such retailers work on creating small batches of highly stylised and detail-rich garments which require much value added work including

sequencing, beading, embroidery, complicated prints and often a combination of these techniques which they can charge higher price per garment. A design-oriented garment that is limited in supply creates a sense of exclusivity about the product and can therefore be retailed at a higher price.

The above discussion highlights the fact that using a GVC based approach when studying the internationalisation prospects of local producers focuses on the importance of the lead firm to the exclusion of alternative types of retailers that local producers may access and cater to. This limits the theory's explanatory value of local firm internationalisation to producers who internationalise solely through the production networks of a certain type of lead buyer (possibly the most significant lead buyer; as mentioned before it is unclear in GVC-based literature what constitutes a lead buyer and therefore how flexible one can be when classifying a buyer as a lead buyer), thus bringing into question whether GVC based studies, with a focus on lead firms, allow for a comprehensive understanding of the constraints faced by internationalising local suppliers who may cater to a variety of buyers, as is the case in this study. Furthermore, policy recommendations deriving from GVC-based literature have also limited applicability or else must be prescribed with caution.

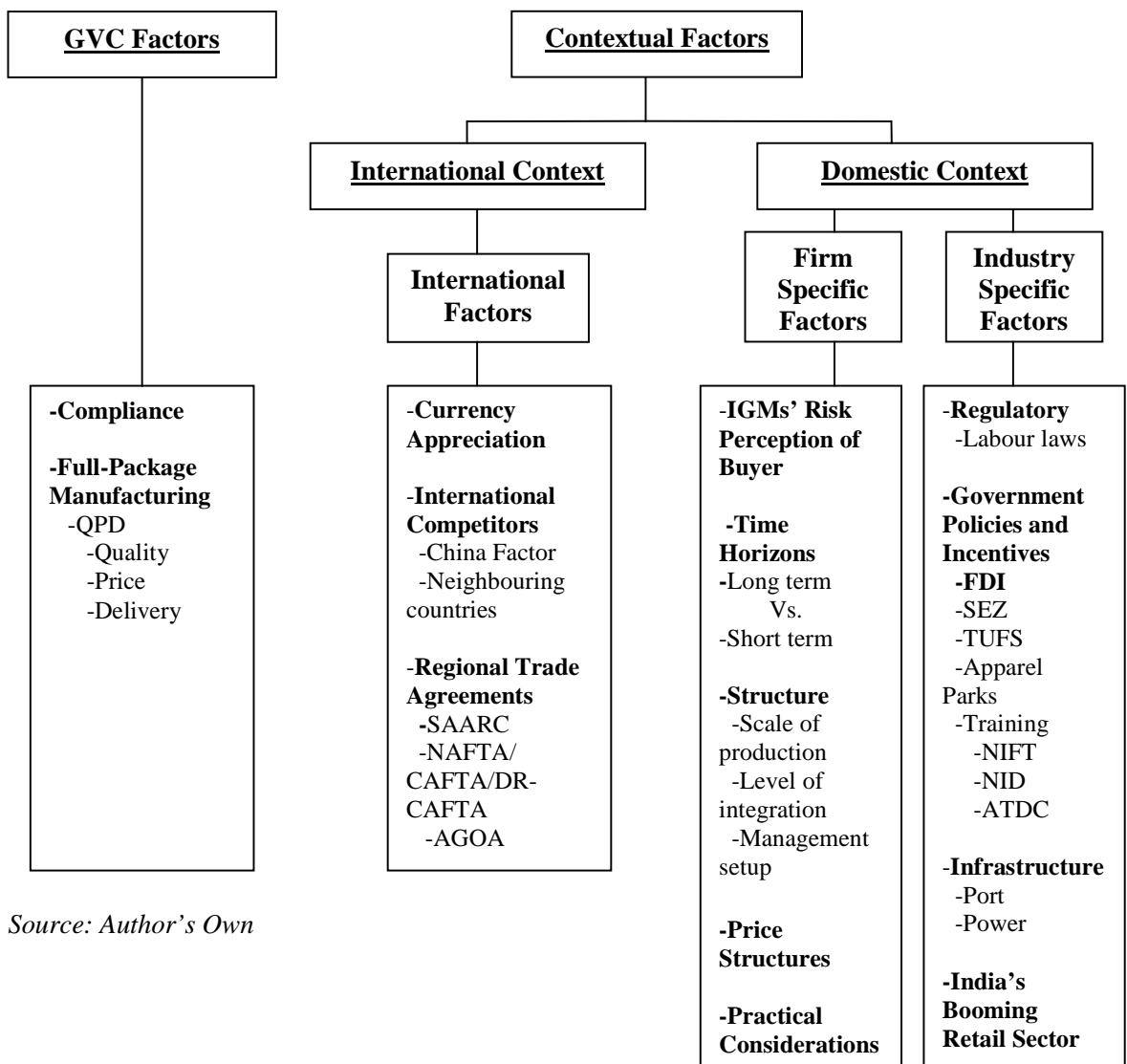
## **6.9 Factors that affect IGMs internationalisation prospects**

Having presented evidence in the previous chapter of the relevance of individual factors to IGM case companies, this section examines the factors in aggregate and draws out their significance by positioning the findings within current debates in the field of GVC and IB literature and research. There are several key points that need to be addressed, firstly understanding the importance of compliance as a relatively new GVC-barrier IGMs face when accessing foreign markets through the production networks of lead firms. Secondly, addressing non-GVC based factors that have emerged from examining case data as alternative albeit important contributory factors responsible for helping or hindering the internationalisation prospects of IGMs and their access to foreign markets and foreign buyers. And lastly, it will be important to comment on the absence of the aggregate of contextual factors in studies that take a purely GVC based approach, indicating not only a deficiency of GVC conceptualisations but also the limitations of policy recommendations when adopting a pure GVC based approach and thus suggesting the need for

augmenting contextual factors when studying suppliers that feed into global value chains as a means of participating in international trade.

Therefore it is equally important to investigate possible alternative factors that may affect the internationalisation patterns and choices made by IGMs that are not necessarily addressed when adopting a GVC-based approach. Along with relevant GVC factors, these alternative factors will comprise the topic of discussion for ensuing sections. Figure 27 summarises the factors presented in the previous chapter categorising them under two main headings, GVC-specific factors and contextual factors (factors that are inexplicable using GVC concepts and literature).

Figure 27 Factors that influence IGMs' access to foreign buyers' production networks



Source: Author's Own



The factor of compliance has been categorised as a GVC based concept as increasingly IGMs report it to be a pre-requisite condition to fulfil if wanting to work with lead buyers. However, the issue of compliance is also relevant when accessing non-lead firm type buyers that IGMs cater to and thus is an important factor to discuss. Alternative factors to GVC-based factors follow on from the discussion on compliance. These alternative factors are contextual by nature and help explain why in the first place IGMs have a preference for the smaller fashion orientated retailer as opposed to the lead firm, and how these factors influence IGMs' choice of international markets and international buyers (as opposed to understanding IGMs' choices through a GVC perspective by taking a lead buyer centric perspective).

### **6.9.1 Compliance**

Case study data reveals that one of the most influential GVC factors on IGMs' ability to internationalise is compliance. Findings from this study support GVC based studies that indicate compliance is a 'new barrier to entry' for many developing country manufacturers accessing buyers in foreign western markets, especially lead buyers. Despite stating the importance of compliance, past studies fail to explore the subject further. To this extent this study contributes by shedding light on various issues related to compliance, not only helping to understand the difficulties IGMs face in operating a compliant factory but also pointing to areas that require further analysis and study. Being compliant requires investment in infrastructure as well as (in many cases) adequate space to create factories with friendly, healthy and safe work environments. Often such costs are too great to bear for local, small to medium sized manufacturers who find it economically unviable. Thus, it is the conclusion of most GVC based literature that the requirement of compliance set by large international buyers has become a hindrance for many manufacturers.

Varied perceptions from IGMs of investing in a compliant factor suggest it to be a double-edged sword, leading to both favourable as well as unfavourable consequences. Manufacturers in this study have to a great extent expressed the conviction that compliance is needed and can even help secure access to, and attract, new buyers. However, there does not exist one set of compliant measures or standards followed by all buyers. This means it becomes difficult for IGMs to satisfy a wide range of buyers' compliance needs and thus poses a difficult hurdle for IGMs to overcome. Furthermore, suppliers find that buyers demand compliant factories but are

not willing to commit to suppliers for a long-term period; on the contrary, they pressure suppliers to lower prices, with the implicit threat of otherwise being dropped for more price competitive suppliers.

Given the tension between the need for a compliant set-up and the difficulties at the initial stages of making such a set-up economically viable, it is not surprising that so many suppliers are tempted to find loopholes and are later caught by television documentaries that expose their wrong doings and label manufacturers as breaching set codes of conduct. Such a scenario suggests a need to reassess the requirement of compliance and questions who the onus must fall upon. Is it enough to pressure manufacturers to be compliant with no commitment from or responsibility taken by buyers? It seems a more collaborative approach is required.

Conversely, the problems of supporting a complaint factory reported by some IGMs could be explained through the varying risk attitudes and perceptions of individual entrepreneurs managing the garment factories. Ibeh's (2003) work explains the varied risk perceptions of entrepreneurs, suggesting that "firms typically differ in their perceptions of external challenges, with some seeing only the problems and obstacles to passively complain about, and others sensing potential opportunity" (Ibeh et al., 2009: 1). The point Ibeh et al. (2009) make, essentially about the differing world views of individual entrepreneurs, is very relevant in understanding many of the decisions made by IGMs and helps explain certain activities that drive entrepreneurs to choose the particular path they have. The conception of worldviews is prevalent in other areas in this research, and will be highlighted where relevant.

Findings from this study suggest investing in a compliant factory can, on the one hand, attract foreign lead buyers who are increasingly under pressure to use compliant manufacturers whilst on the other hand, due to lead buyers' tendency to be footloose, manufacturers find themselves at the risk of being left with a costly and unviable set-up. Whether manufacturers face a very real problem or whether the problem is one of individual manufacturers entertaining differing world views preventing them from overcoming the initial difficulties faced is not certain. Thus further research is necessary to assess the severity of the problem and better understand the difficulties with compliance. Are there other manufacturers in different garment producing countries facing similar issues, and what is the primary cause of the problem? Is there a need for a more collaborative approach to ensure manufacturers invest in a compliant factory that is also

economically viable for them to run? These questions should be the concern of future research examining compliance as a possible factor hindering the internationalisation prospects of developing world manufacturers.

Overall, it is possible to say that the two GVC based factors, compliance and full package manufacturing, are essential if IGMs want to access foreign production networks of lead firms. However, even some compliant and full-packaged manufacturers opt not to access such production networks. Instead this study suggests that contextual factors exogenous to the production networks of large lead firms have played an important role in influencing IGMs' decisions to internationalise and access foreign buyers as well. These exogenous factors are contextual in nature and can be divided between international factors and domestic factors. Thus the topic of discussion in the ensuing sections relates to the international and domestic contextual factors that influence IGMs' decisions and ability to access foreign markets and buyers.

### **6.9.2 Alternative factors**

So far it has been established that IGMs do not solely cater to lead firms but are likely to cater to a range of buyers, and therefore GVC theory, which mainly concerns firms that cater to lead firms, is alone inadequate in addressing factors that help or hinder IGMs' internationalisation prospects. Alternative concepts are needed to explain factors that hinder IGM internationalisation prospects. This section introduces these alternative factors but also before addressing them discusses a GVC based concept that has been a major factor hindering IGMs, both those who cater to lead firms and – to a lesser extent – those who cater to alternative types of buyers.

### **6.9.3 Contextual Factors**

Case study data suggests that most of the investigated firms are also affected by non-GVC based factors that are contextual in nature when choosing foreign markets and buyers to cater to. These factors fall under two broad categories: international factors and domestic factors. In combination most of the international factors seem to hinder rather than help IGM internationalisation efforts. The fact that India is not part of an effective regional trade

agreement and recent currency appreciations has led to Indian exports being comparatively more expensive and thus less competitive altogether having a negative impact on IGMs business prospects. However, a surprising finding is that IGMs do not necessarily see China, the largest garment producing country in the world, as a high risk factor, instead suggesting they cater to distinct markets. This suggestion once again reinforces the early discussion of a Chinese versus Indian model of internationalisation, where Chinese firms are more integrated into trade through the production networks of lead firms compared to Indian manufacturers. The understanding amongst Indian garment manufacturing firms is that Chinese manufacturers' larger and mostly integrated set-ups are more suited towards catering to such types of firms and therefore not designed to cater to the smaller fashion orientated firm which requires more flexible setups. There are some indications that China's apparel manufacturing firms are still at the lowest level of the global value chain with little inroads made into own design manufacturing (Tan, Ma & Liu, 2009); however, with the realisation brought about by such studies, efforts may be made towards strengthening their positioning within the value chain, and thus Indian garment manufactures must realise that change is inevitable, if not in the short term then definitely in the long term, and for this reason must perceive China as a very real potential competitor and reevaluate China's position on a periodic basis.

Overall, the international context, although reported by case companies as potentially impacting their international competitiveness, can be considered as indirect and distant, and is outside the control of IGMs. In contrast contextual factors prevalent in the domestic market, particularly firm specific factors, have played a more direct role in influencing IGMs' choices of international markets and buyers, and thus internationalisation prospects, and together with industry specific factors are discussed in ensuing sections.

#### **6.9.4 Domestic Context**

The domestic context – both firm specific factors and industry specific factors – seems to be reported by IGMs as having the most impact on their choice of international markets as well as international buyers and thus also influences their internationalisation prospects. The following sections discuss the implications of these factors in greater depth.

### **6.9.5 Firm specific factors**

When discussing GVC-based factors that have impacted IGMs' international foreign market access decisions and activities, what is apparent is the emphasis GVC-based studies and proponents place on the role of the lead buyer in determining whether or not a particular local manufacturer is deemed eligible to participate in their production activities. However, in discussions with IGMs regarding factors that impact their ability to access international buyers, they have rarely mentioned the lead firm as a barrier to accessing foreign markets. Instead a common impression that emerges is that more frequently than not it is the IGM's own firm-specific factors that have driven her/him to seek particular buyers and in other cases to decide against working with other buyers. Such decisions have very little if anything at all to do with the lead firms' requirements or demands. For example, the IGMs' preference for fostering long-term relationships with a select group of buyers, as well as their preference for small-scale production set-ups and other practical considerations discussed in the previous chapter, all suggest that to a large extent IGMs actively seek the markets and buyers that they want to work. These are buyers who meet their risk perceptions and requirements, both of which are largely shaped by domestic and international contextual factors.

Even though compliance is demanded by large retailers, IGMs in this study have shown that based on their risk perceptions some will comply with the requests and demands of larger manufacturers, while others find investing in large scale compliant and integrated set-ups a risk they are unwilling to take and instead finding alternative markets and channels to service, whereby they are either not required to take on such risks or subject to a level of compliance substantially lower and more agreeable to their investment preferences and risk appetite.

Given the ever slimmer margins with which IGMs have to work, the garment industry can be viewed as a cut throat environment. This in turn heightens IGMs' sense of risk of failure in meeting business expectations or requirements. The current literature and previous studies on garment manufacturing do not incorporate producer-based risk perceptions in their explanations of the decisions undertaken by garment manufacturers attempting to participate in the global production networks of lead buyers. Incorporating risk perceptions helps to gain a firmer grasp on why Indian garment manufacturers operate and function at the scale and level that they do, which often means not wanting to work with large 'lead firm' type buyers.

Another firm specific factor influencing the internationalising prospects and choices made by IGMs is their reliance on family as top level managers within their firms. IGMs report that lead firms prefer to deal with manufacturers who have a professional management set up. Yet IGMs are reluctant to relinquish control of key management positions within the firm to outside management, mainly due to suffering from high levels of attrition at management level. By contrast, management level graduates show a preference for professionally run firms over family run firms where opportunities for development and promotion to top level management is scarce. Therefore graduates are in constant search for openings with more professionally oriented companies, thus contributing to attrition and confirming complaints levelled by IGMs. This three-way tension is an important finding and may suggest why many smaller IGMs find it at times difficult to access foreign buyers or to possibly benefit from professional input despite the availability of a large source of professionally trained graduates. Many of the graduates are also poached by neighbouring producer countries like Bangladesh, offering attractive salary packages and managerial level prospects, as these countries do not benefit from training schools.

The tensions illustrated here need to be further explored to judge the actual impact such tension have on the prospects of IGMs. Does a lack of professional input impact on these companies' abilities to upgrade and seek more lucrative buyers? Does a lack of management differentiate between the successful more design oriented IGMs compared to less design oriented IGMs? To what extent does a lack of highly trained managerial level graduates impact the upgrading and growth prospects and internationalisation activities of IGMs? These questions make for interesting research topics and are important when assessing the impact certain firm-level patterns have on IGMs internationalisation prospects that are sustainable.

### **6.9.6 Industry-Specific Factors**

#### ***Booming domestic retail sector***

According to the investigated case companies in this study, in terms of industry-specific factors, a booming domestic retail sector has been by far the most significant factor influencing IGMs' internationalisation patterns and choices. Over the last decade India has seen the emergence of an organised retail sector largely fuelled by a growing middle class consumer market, itself a product of the highly successful and growing Indian IT sector (Cygnus Report, 2004; MIT

Report, 2007; BK Report 2007). IGMs who previously focused their manufacturing activities exclusively on the international market tell of their more recent diversification activities into the domestic market and catering to the needs of the domestic retailers. Many have also upgraded from purely providing manufacturing services to others to branding and retailing their own apparel.

It seems that, be it for diversification reasons or alternative market reasons, IGMs are concentrating on the domestic market. Many felt it was a lucrative and easier option with a huge potential. To some extent this will impact on exports, as many firms who are small and starting off and struggling with meeting international standards have the possibly easier option of focusing on the familiar market of their home country. However, if requiring lower standards and thus lower efficiencies is the primary reason for manufacturers to switch to the domestic market, this is a dangerous and short-sighted strategy, as a high ranking government official from the Ministry of Textiles suggested to the author of this study.

IGMs studied here have also talked about how the domestic market as opposed to the international market provides them with more opportunities to come up with their own brand. The impact this has on IGMs' international activities and upgrading prospects is discussed in the next chapter, but is worth noting at this point. Thus the emergence of such trends and their impact on IGMs' export activities are another telling sign of the choices available to IGMs, further going to reinforce the notion that IGMs are not just reactive to the needs of lead buyers but instead actively aware of alternative opportunities and influences within the domestic context that got to influence their decisions.

#### ***Government policies & incentives***

Similarly, positive government funded factors (translated as institutional capital by RBV theorists), such as training institutes like NIFT, NID and to some extent ATDC, have helped bolster the competitiveness of IGMs, providing IGMs with a potential source of resources and information not easily or readily available by competitors, like neighbouring Bangladesh. Thus to this extent the resource based view (RBV) helps understand why IGMs to a certain extent enjoy sustained competitive advantages and are able to compete internationally. However, at the same time various government incentives and policies specifically drawn up to help the manufacturing sector, such as SEZ's, TUFs and initiating a recent open door FDI policy in

India, have had little if any impact on facilitating small to medium sized IGMs to compete internationally. In comparison to countries like China, where such policies have had a profound positive impact in boosting exports and attracting foreign investments, IGMs are at a disadvantage and constantly call on the Indian government to foster ‘a level playing field’ (an expression commonly used by IGMs in this study) but to no avail.

For example, Special Economic Zones (SEZs) are geographical regions or explicitly designated townships within a country that have superior supporting infrastructure, and retain economic laws and policy incentives that are more liberal than the presiding laws of the specific country that the SEZ is located in. The Government of India recognises the importance of SEZ’s and one of the first Export Processing Zones (EPZ), a type of SEZ, was opened in India in 1965, in the region of Kandla, a seaport in the Kutch region of Western Gujarat. The EPZ was built “with a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India,” (Ministry of Commerce and Industry Website, 2009). Since 2001, the government has introduced the concept of the SEZ and converted various EPZs to SEZs. Despite this, SEZs have had little success in boosting the competitiveness of IGMs and in attracting foreign investments. This is in contrast to the experience of China where SEZs have been integral in boosting the competitiveness of Chinese export industries, including the Chinese garment industry (Majumder, 2003). Table 39 compares SEZs in China and India. It highlights the high export performance of Chinese SEZs in comparison to the substantially lower performing Indian SEZs.

Table 39 Comparisons of SEZs Export Performances between India & China

(\$ millions)			
<b>Export Performances of SEZs: China versus India</b>			
<b>SEZ</b>	<b>China</b>	<b>SEZ</b>	<b>India</b>
	<b>(2001)</b>		<b>(2001-02)</b>
<i>Xiamen</i>	5068.5	<i>Cochin</i>	54.4
<i>Shenzhen</i>	17,813.2	<i>Falta</i>	194.3
<i>Zhuhai</i>	3,197.9	<i>Kandla</i>	100.1
<i>Shantiu</i>	1,054.7	<i>Madras</i>	160.4
<i>Nanghai</i>	769.0	<i>Noida</i>	206.3
		<i>SEEPZ</i>	1099.4
		<i>Surat</i>	65.6
<b>Share of SEZ in</b>		<i>Vishakapatnam</i>	52.8
<b>total exports (%)</b>	<b>10.5</b>		<b>4.4</b>

Source: Majumder, (2003) *Financial Daily*, Wednesday May 7<sup>th</sup> 2003



### ***Infrastructure***

Furthermore, India is riddled with infrastructural problems creating bottlenecks that continue to negatively impact garment manufacturers' competitiveness and ability to cater to buyers who work with short and strict time frames. Thus foreign buyers are likely to find IGMs less competitive due to the inefficiencies prevalent in the domestic context within which they reside. It is against this backdrop that IGMs operate and thus in order to survive and flourish need to be attuned to systems that would work, so for example if problems with infrastructure like power cuts lead to delays in production along the supply chain they need to be able to incorporate such delays and build them into their system, and would be unable to work with buyers who demand fixed and strict time frames within which deliveries have to be made.

### **6.10 Signs of immiserising growth setting in?**

The above discussions have so far covered factors that have helped or hindered IGMs in accessing international markets and foreign buyers. Many IGMs seem to struggle doing international business. In particular, it seems a combination of internal, firm-specific factors and exogenous factors related to the international context work together to create an environment that makes it difficult for IGMs to compete successfully. If this is the case then it is likely to adversely affect IGMs' future internationalisation decisions and prospects so that there may be worse to come.

The concept of 'immiserising growth' employed by Kaplinsky et al. (2002) seems appropriate in explicating the possible negative developments that some IGMs seem to be experiencing in this study. Immiserising growth is "a situation in which in the context of growing competition, countries engage in increasing economic activity and expand the value of exports, but due to falling unit prices, overall export receipts fall" (Kaplinsky et al., 2000: 15). This seems to be the case for some of the IGMs in this study. Despite their pro-active efforts to compete using more sustainable forms of competition (e.g., by making their production facilities compliant or by expanded their production capabilities to cater to larger volumes), various exogenous factors that IGMs have little control over, particularly international and industry-specific factors, make it harder for firms to avoid basing their competitive strategy on lowering costs. This scenario makes immiserising growth likely to set in.

However, Kaplinsky et al. (2002) warn that this concept of ‘immiserising growth’ can be ‘deceptively simple.’ As in reality, a combination of complex factors, often difficult to identify, or single out, work together to create prospects for immiserising growth; thus implications and findings derived from application of the concept should be carefully examined. The concept of immiserising growth has been applied to the case of IGMs in this study speculatively and hypothetically with the recognition that much further, more quantitative, and vigorous research methods are required to test the plausibility of the proposition.

### **6.11 Conclusion to Section 2**

This section discussed factors that impact the internationalisation of IGMs. It started by accepting that GVC-based factors like compliance and QPD (quality, price, delivery times) certainly affect local firms’ ability to access the larger foreign lead buyers. However, findings suggest that governance structures imposed by lead firms are not the only obstruction to IGMs’ international activities; in fact, many saw other factors as being more important in shaping their international business decisions, despite participating in the production networks of lead buyers. Firstly, the production networks of the larger ‘lead firms’ were not the main buyers IGMs in this study sought to do business with. The majority of IGMs worked with smaller branded fashion retailers, some of whom could be considered lead firms, as they are well known brands, but who operated on a small scale rather than a mass scale. Also, IGMs sought buyers who offer better price structures and require greater design and value addition from their suppliers, which is where a number of IGMs feel their strengths lie. Other domestic and international factors IGMs felt were likely to impact their international business decisions included: firm-specific issues, labour laws and exchange rate risk (felt to be greater impeding factors than lead firms’ imposition of governance structures); well developed training institutes that provide a ready supply of designers, and other inhibiting factors such as managerial-level labour market churning, which forces IGMs to adopt certain work practices which only suit certain types of buyers. Furthermore some IGMs are reluctant to expand into new markets due to practical considerations, whilst others prefer to ‘grow with the buyer’ than constantly seek new buyers. This goes to show how the context within which IGMs are embedded impacts their choice of international markets or buyers, often to a greater extent than lead buyers’ requirements, ascribed a central role in the GVC framework.

### **Section 3 Upgrading Practices & Prospects of IGMs**

This last section of this discussion chapter examines the upgrading prospects of IGMs and positions the findings in current debate. GVC theory has been the dominant theory when examining upgrading prospects of internationalising firms, and although it has been extremely useful in enabling a greater analysis of functional upgrading, in particular design upgrading, findings from this study suggest that in other respects it has not been able to comprehensively explicate factors that help or hinder IGM upgrading. Here we find that various strands of IB literature and theory could be more useful in explicating findings presented in this study. The conceptual framework provided in Chapter 3 makes an attempt at combining various IB theories and concepts that seem likely to be able to help in explaining some of the problems with GVC theory as discussed in Chapter 2. The purpose of the ensuing discussion will be not only to analyse the findings and position them in current GVC and IB debate but also to establish whether the preliminary framework drawn at the outset of the study has been accurate in its method of combining various aspects of GVC literature with IB and Strategy literature, or whether there is a need to alter the framework to achieve a more accurate reflection of the issues concerning IGM internationalisation and upgrading.

This section starts by discussing the individual upgrading categories and assesses their relevance to IGMs using both a GVC approach as well as complementary IB theories to derive implications. The implications not only assess the importance of the findings but also the significance of the particular theories employed to further boost the analytical value of the GVC theory.

#### **6.12 Market Upgrading**

Analysis of case data regarding the upgrading activities of IGMs required an augmentation of the four-fold GVC-based upgrading typology (Kaplinsky and Morris, 2001) to include a fifth category, labelled Market upgrading or 'Channel' upgrading following the work of Dunn et al. (2006); this allows for a more incisive understanding of the upgrading activities and motivations of IGMs. Market upgrading occurs when firms enter into new market channels for various reasons including the quest for "higher prices, higher sales volumes and more effective risk management through diversification" (Dunn et al., 2006: 2). IGMs show that they consider their own home market as a potential 'new' market as well as a more lucrative market to cater to

compared to the current recessionary markets of the West which they are currently catering for. This can be considered a form of market upgrading from a value chain perspective but can also be understood from an international business theories perspective. Market upgrading can be interpreted as an act of internationalising, particularly, when using broader conceptualisations of internationalisation, such as de-internationalisation and extra-regional expansion. That is IGMs market upgrade or internationalise by first de-internationalising and refocusing their efforts in their own home markets and then carrying out an extra-regional expansion strategy whereby they seek 'new', 'foreign' markets/locations to cater to within their home country.

Alternatively, firms may also market upgrade because they are seeking an outlet or channel through which they can export lower quality goods that do not meet particular foreign market buyer's high-value market standards, as is reported by case company PF. Market or channel upgrading may be confused with chain upgrading, but they are two distinct types of upgrading activities. Chain upgrading occurs when a firm enters into a completely new value chain based on a different product altogether. In market upgrading the product per se remains the same, but variations may exist in product quality, price, or quantity, as well as the conditions under which the product was manufactured (that is, whether the factory complied to buyer standards or not).

Various factors reported by IGMs are responsible for their market upgrading activities, as illustrated in the previous chapter, Chapter 5, Figure 24. In particular the type of manufacturing set-up a company works with (e.g. integrated versus non-integrated or compliant versus non-compliant) seems to underlie many of the motives highlighted by IGMs for seeking a different market or channel through which to trade products, as often supporting a non-integrated, non-compliant factory means that the risk of servicing a mature market becomes higher. Similarly, supporting a compliant and integrated factory means markets that are not mature and don't necessary demand compliant factories or high quality standards would be deemed a risky market to cater to as it would not be able to offer the higher price points, higher volumes and frequent orders required to justify the higher costs of running an integrated, compliant factory.

The importance of market or channel upgrading as a specific typology of upgrading becomes clearer when a distinction is drawn between firms that seek out new markets as a form of a diversification or expansion strategy versus firms that are seeking out specific channels through which to sell their products. The former is motivated as a result of wanting to expand into new markets whilst the latter type of market seeking is driven by an alternative set of specifications

that the firm is looking to satisfy, as discussed above, e.g. a market or channel through which to sell their lower quality products. This explanation is further justified in view of the IGMs in the study who report that expanding to diverse international regions of the world is not something that they are comfortable doing. Instead IGMs prefer to contain the client base and focus on a few markets with a set number of customers. Reasons given include, amongst others, the practicality of design, as well as monitoring the standard of their current portfolio of clients, who they prefer to grow with rather than spreading themselves thinly across a wide range of buyers based in a wide range of countries. Thus to this extent adding a market/channel category allows for minor observations and distinction to be made, bringing greater precision to the understanding of the upgrading activities of IGMs, which can be applied to studies on other internationalising local producers.

Dunn et al. (2006) support the findings on market upgrading prevalent amongst IGMs. In their study on upgrading within value chains they propose that firms are inclined to upgrade to a new market/channel as an incentive to “improve risk-adjusted returns” (Dunn et al., 2006: 2), which is achieved through higher prices, higher sales volumes etc. The similarities of the findings between their study and this one on IGMs suggests market upgrading to be an important addition to the existing GVC upgrading typology proposed by Kaplinsky and Morris (2001), if more incisive analyses of upgrading pattern and motivations are to be captured by research.

An additional implication of the emergence of a potential fifth form of upgrading type is the need to augment the conceptual framework created in Chapter 2. Market/channel upgrading needs to be added to the framework so that the framework will allow for a more inclusive understanding of the range of upgrading activities IGMs engage in and possible for firms to undertake. This result of the augmented framework is provided at the end of this chapter in Figure 28.

### **6.13 Product upgrading results**

In terms of product upgrading IGMs report a mix of orientations towards product upgrading. Some have gone about product upgrading in a haphazard, almost reactive manner, whereby they have specifically set out to cater to buyer requests and needs. This is in contrast to other case participants in this study (e.g. TWW, SI, UNI, KI), who have been more proactive and used focused, pre-determined, research-based strategies to guide their product upgrading decisions. It

has not been within the scope of this study to persuasively verify which of these approaches has been more successful or if no distinction can be found, as this would require a quantitative approach. It could, however, be undertaken as future research.

Product upgrading to access foreign markets or buyers can be further understood by applying the concept of 'internalisation' as conceived by Buckley and Casson (2009, 1976). They suggest that a firm's product diversification decisions is a result of the 'make or buy decision' that a firm faces. IGMs use product upgrading as a strategy to retain existing customers. They feel that increasing the range of products they manufacture allows them to better cater to the growing needs of their existing customers who may themselves decide to expand their customer base by adding new product lines to their existing range (for example, in addition to retailing men's wear garments a retailer may decide to expand into women's wear or children's wear). Thus IGMs are seen to internalise the production of new product ranges. Not only does this help retain existing customers but may also appeal to new buyers who require manufacturers who deal with a wider range of products.

## **6.14 Functional Upgrading & Inter-Chain Upgrading**

### **6.14.1 Functional Upgrading**

There are two variations of functional upgrading suggested by GVC theory, inter-link and within-link upgrading. IGMs have shown to have carried out both variations of functional upgrading. The first is inter-link, where manufacturers like MI and TI have upgraded their activities along the chain from being manufacturers to setting up a foreign owned subsidiary by opening their own marketing offices abroad. International business literature labels such firms as micro-multinationals (mMNEs) (Dimitratos et al., 2003). These firms use 'advanced market servicing modes' to trade internationally. Employing such marketing modes is normally only possible for larger multinational enterprises rather than SMEs who often suffer from a liability of smallness and thus lack resources to carry out activities that require greater investment commitments.

Furthermore, when examining inter-link functional upgrading, the concept of internalisation (Buckley and Casson, 1976) further helps understand this form of upgrading. IGMs like TI report that internalising the operation enabled them to be more cost effective than if they had continued outsourcing the marketing requirements for the US to a third party. The implication is

not purely about upgrading to the higher value added activities of the value chain but also about containing and monitoring their costs. In the case of inter-link upgrading complementing this GVC concept with concepts from the field of IB seems to enhance our depth of understanding.

Obviously, designing a garment is one of the functions of the garment manufacturing value chain. Employing the concept of within-link upgrading, the second variation of functional upgrading, has enabled a better understanding of IGMs' design activities. Literature on the design activity, in particular Global Value Chain (GVC) literature, treats it as a high value added function due to the potential for those undertaking the activity to earn higher levels of income. The literature furthermore considers upgrading to the design function as difficult and rare, with virtually insurmountable barriers to entry for many manufacturers attempting to upgrade in this area (Tokatli, 2007a). Furthermore, Tewari's (2006: 2326) study of the Indian garment industry finds that upgrading through design has still not been achieved, but could be a possibility "if nurtured well." Tewari (2006) does not explore the nature of design upgrading. Nor does she investigate the possible difficulties encountered by IGMs in mastering this important value-added function, thus leaving a gap in the literature that required further examination.

When considering upgrading to design from an IB perspective, the Resource Based View (RBV), and particularly the Knowledge Based View (KBV), somewhat help to understand why design is a difficult activity for manufacturers to undertake. In order to design, firms must own a certain combination of strategic resources such as human capital, in the form of designers who encompass the experience and knowledge of designing, together with physical capital, in the form of a design studio and access to equipment and technology that allows the designers to do the job adequately. This is definitely true for companies such as MI and KK who own full-fledged design studios that not only employ a team of design graduates but also subscribe to expensive technologies such as WGSN, which allows their designers to explore current trends emerging in western markets they cater to. However, RBV and KBV explanations are not very enlightening regarding why not all IGMs upgrade to the design activity, as design graduates are easily available in India, which boasts of various fashion technology institutes, and many IGMs do not have problems in accessing finance. Instead we find that many talk of their reluctance to upgrade to design for various practical and risk related reasons amongst others. These alternative factors obstructing their decision to upgrade to the design function are further discussed in ensuing sections.

### 6.14.2 Inter-chain upgrading

Like design upgrading, the GVC category of chain or inter-chain upgrading, where a firm enters into a new value chain based on the manufacture of a different or unrelated product or service, is a very rare occurrence. The literature includes it as one of the possible upgrading categories but few studies, if any, have reported evidence of this type of upgrading, particularly studies conducted on low-tech industries such as garment manufacturing. It is more often associated with companies in high-tech industries, where Asian – particularly Taiwanese – manufacturers have been known to upgrade from making “transistor radios to calculators, to TVs, to computer monitors, to laptops ... and to WAP phones” (Kaplinsky et al. 2000: 38).

Within the garment industry possibly the only example of this sort of upgrading is the choice of some companies to become ‘smokeless factories’, no longer manufacturing themselves but rather focusing on coordination of production, which is relegated to third party manufacturers. A good example of this is the Hong Kong based trading company Li and Fung. Li and Fung have also expanded their procurement from garments to soft and hard furnishings as well as toys. However, the literature lacks any real insight into chain upgrading activities or the processes that lead to chain upgrading.

Surprisingly analysis of case findings from this study identified one company, UNI, as having upgraded its chain. UNI was previously a garment manufacturer but soon discontinued production to start a procurement and solutions provision business to a key retailer in the US. From its experience and knowledge of manufacturing and sourcing garments it was able to make this transition and slowly built on its capabilities, and was soon procuring all requirements from saleable to non sellable items like fixtures and fittings for the retailer. The company also expanded its research capabilities, using techniques such as tariff engineering to allow the best and lowest possible source of products to be located around the world. The explanation of this type of upgrading seems limited from a GVC perspective, which is more descriptive and does not tell us how manufacturers actually can upgrade to this area or what possible limitations or problems they are likely to face. This lack of information may be due to the limited number of cases researchers have reported of chain upgrading. This study contributes albeit in a small way to understanding the possibility of chain upgrading through analysis of this case. It seems that combining an RBV/KBV approach with international entrepreneurship concepts helps to understand how UNI was able to attain this rare form of upgrading.



Using an RBV approach, we see that UNI does employ a mix of strategic resources such as human and physical capital; however, it could be argued that these are available to other domestic companies based in India and therefore does not necessarily explain why UNI is able to chain-upgrade. Lu et al. (2010), however, suggest that it is not enough for firms to employ strategic resources but that these resources need to be harnessed by the firm's capabilities. That is, resources must be combined with capabilities in order for them to meet the crucial criteria of being heterogeneous and not easily transferable across firms (Teece et al., 1997). Capabilities are organisationally embedded in the processes, systems and key managers and innovators that comprise the organisation.

UNI seems to have built up an organisational environment that allows it to harness resources to its advantages and build sustainable competitive advantages. The organisational setup comprises of various teams of people assigned to these specific units that work on various functions within the organisation. The exact setup is not divulged as they perceive it to be their unique capability (Lu et al., 2010). Therefore even if an employee was to leave with his/her specific knowledge, it would be difficult for a competitor firm to immediately take advantage of this knowledge as they would have to put in place similar systems and organisational processes for the person's knowledge to be harnessed in the same way as UNI has been able to. Furthermore, UNI's founder discusses the creative vision that also played a part in driving his firm forward, allowing it to expand and build on its growing capabilities. This innovation and creativity of the owner also constitutes a heterogeneous resource possessed by UNI over other firms. The role of the entrepreneur and various other factors that contributed to UNI's success is further discussed in later sections of this chapter when applying an international entrepreneurship approach to studying firm upgrading and internationalisation.

Thus examining both these types of upgrading activities, design function upgrading and chain upgrading, in greater depth is important to understand how manufacturers based in emerging markets like India and in low-tech industries like garments are to achieve higher income earning opportunities sustainably. IGMs in this study have experienced both these types of upgrading activities, although the more prevalent type of upgrading is design function upgrading. Thus, the insights into chain upgrading are limited in this study, and the discussion focuses mostly on design upgrading.

## **6.15 Design Upgrading**

Findings from Global Commodity Chain (GCC) studies indicate that buyers view the design activity as their core competency and therefore are reluctant to relinquish control over this function, making it difficult for local manufacturers to upgrade to this particular function of the value chain. However, analysis of case findings from this study suggest that the GCC view that buyers are the limiting factor in manufacturers' upgrading prospects can be too simplistic an understanding of the issues at hand. The more recent GVC approach to the difficulties in codifying transactions offers a somewhat better explanation of the issues surrounding design upgrading. That is, it acknowledges that the nature of certain activities is such that the knowledge regarding the way in which the activity is carried out is not easily transferable as it is engrained in the actual carrier of the knowledge provider. These intangible aspects of knowledge, relevant to certain activities like the design function, are discussed in greater detail in ensuing sections of this chapter.

However, despite such acknowledgements, even GVC-based concepts do not fully explain the findings requiring further development. Thus, Aspers' (2006, 2009a, 2009b) concept of 'contextual knowledge' is employed to explicate findings from this study. These concepts and various others on the factors that hinder design upgrading are discussed in light of GVC based studies.

### **6.15.1 Opening the Black Box: The Design Process**

GVC theory has been highly effective at enabling the 'black box' that is design to be opened and explored. Within-link and inter-link functional upgrading have provided this study with useful tools in understanding that the design function is more complex than current GVC based studies might lead one to believe. Findings from this study suggests there exist various levels of design, which are not necessarily sequential, but do vary in some respects in difficulty. However, IGMs from this study have shown that at any one time they are likely to work at more than one level depending on the needs and requirements of the buyers. Different buyers tend to have different systems of operations and work practices, some requiring greater design input, others requiring less. This knowledge further confirms evidence from GVC based studies that producers feed into different types of chain relationships, with some being relational and collaborative and others captive by nature, but these arrangements are not always dependant on supplier capabilities.

What, then, are the factors determining the degree to which a manufacturer participates in designing for a buyer? Does it depend on skill sets and capabilities, as suggested by GVC governance concepts, or maybe a combination of factors? Analysis of data suggests that a combination of factors – some related to the buyer and others unrelated to the buyer, some explained by GVC concepts and others unexplainable by GVC concepts – are responsible for the level of design participation and upgrading by IGMs. The following sections discuss these various factors.

### **6.15.2 Difficulty with codifying knowledge**

GVC theorists recognise the ‘ability to codify transactions’ as a crucial determinant in determining the type of governance regulating the relations of a producer with a foreign buyer (that is, captive, relational or modular) (Gereffi et al., 2005, Sturgeon et al., 2008). In the case of IGMs, with the exception of NSA, who could be classified as being captive, most would fall under the relational category and a very few, possibly only MI, UNI, and KK, would be classified as operating in a modular type chain due to their higher competencies and design abilities. However, what is highlighted above is that manufacturers – especially those in the relational type of governance chains – find it difficult to design because of the tacit nature of transferring design knowledge. Some manufacturers have overcome this by forming closer collaborative relationships with buyers and, as will be discussed later, have certain entrepreneurial characteristics that allow them to upgrade to this collaborative level of designing that is required in a modular governance chain.

### **6.15.3 Contextual/Locational nature of knowledge**

The emergent theme of the location practicality of design addressed in this study is well explained by Aspers’ (2009) very recent work on the geographical factors affecting upgrading in apparel designing. Aspers studies what ‘structures’ knowledge rather than what embodies knowledge, which is the theme used in the GVC literature when employing the concept of codifying knowledge to explain the difficulties encountered when upgrading in design. He uses the concept of ‘contextual knowledge’ to help understand the underlying issues that impact design upgrading. He suggests that an individual’s knowledge is shaped by and tied to the context within which he exists, thus making it very difficult for another individual who does not

exist in the same context to fully gauge the intricacies of that context or arrive at the same interpretations of it. Moreover he “links the cultural, cognitive, social and geographical aspects of knowledge” (Aspers: 2009: 15) to understanding what forms an individual’s perception of a particular context and thus essentially creates a particular ‘world view’ or, in the context of the design function, shapes the designer’s knowledge and taste in fashion. Therefore upgrading in design, when it involves distant foreign markets, can be difficult due to the contextual nature of knowledge, as a designer based in the market in which the clothes are to be sold is more likely to know the fashion trends that are likely to work and sell in the particular market than a designer based abroad.

#### **6.15.4 Costs and benefits of designing**

We have seen that the problems manufacturers face when attempting upgrade within or to the design function are not always a result of the lead buyer placing restrictions on the manufacturers who would like to upgrade in this area. In fact, buyers are keen on manufacturers upgrading to the design function, as it seems that buyers are realising that the design function can be carried out at a far lower cost in India, where highly competent manufacturers and design studios are capable of forecasting and conceptualisation. Having examined the factors that hinder design upgrading, in the following section we turn to the factors that facilitate upgrading to design.

#### **6.16 Factors that help with upgrading to value added activities**

What factors have enabled manufacturers like MI and KK to achieve a high degree of design participation and UNI to achieve chain upgrading? The literature looks at how many manufacturers have been able to upgrade through design, albeit with a focus on the buyer as the key conduit of knowledge. Various studies (Schmitz and Knorringa, 2000; Bair and Gereffi, 2002, 37; Knorringa, 2002; Peters et al., 2002; Tokatli and Eldener, 2004; Gereffi et al., 2005) suggest that manufacturers learn directly from working in the production activities of lead buyers who transfer know-how and skills sets to them. Some manufacturers have learned from buyers indirectly by watching or by learning by doing (e.g. Amsden, 2001: 55, 286). Schmitz and Knorringa (2001) also highlight that much of the literature on knowledge transfer focuses on R&D and suggest that when looking at “low-tech” sectors like footwear, there are other more intricate forms of knowledge transfer that are equally important but could be overlooked. This

section of the chapter investigates the above assumptions and issues concerning upgrading to the design function, and compares them with the experiences of IGMs.

#### **6.16.1 Role of buyer in knowledge exchange and transfer**

Large foreign retailers or ‘lead firms’ are considered within the GVC framework as sources of knowledge, and thus firms that gain access to their production networks and participate in their production activities could benefit from transfers of knowledge and technology. This acquisition of knowledge and technology is a means by which local firms can upgrade technical and managerial skills. This enables them to meet buyers’ specifications whilst also ensuring that they can gain from international trade in a more sustainable manner, which may be impossible – or at least harder – when adopting a low cost strategy (Ernst and Kim, 2002, Abstract; Kaplinsky et al., 2003, 2000). Using a low-cost, purely price-based strategy is seen as a short-term strategy, as it only takes the emergence of an even cheaper production location to wipe out a company’s competitiveness.

The mechanisms through which lead firms transfer knowledge to their suppliers are therefore an important consideration. In addition, it is important to question whether foreign lead firms are a key channel through which IGMs have gained knowledge. Ernst and Kim (2002: 1424) provide a useful two-by-two matrix model in understanding how ‘flagship’, or lead, firms transfer knowledge to their suppliers/manufacturers. The matrix is presented in Figure 6, in Chapter 2 and is helpful in examining and understanding the experiences of the companies in this study and the extent to which they have benefited in terms of knowledge and technology transfers as a result of participating in lead firms’ production activities.

Ernst and Kim’s (2002) matrix categorises knowledge and technology transfer into four quadrants, based on two characteristics related to the supplier of knowledge (in this case the lead firm). The first characteristic is the activeness or passiveness of the buyer as a provider of knowledge, and the second is the degree of formality of the knowledge dissemination mechanisms (i.e., whether the knowledge is disseminated through such formal means as contractual agreements or through more informal mechanisms).

#### ***Formal mechanisms***

Formal mechanisms like foreign direct investment (FDI), turnkey projects, technical consultancies etc. have played an important if not integral role in initially disseminating

knowledge and technology to local Chinese garment manufacturers who partnered with ex-manufacturers turned contractors that constituted the Hong Kong based Chinese Diaspora. This dissemination of knowledge and technology has resulted in considerable upgrading of Chinese garment manufacturers' production processes and activities (Tewari, 1999; Gereffi, 1994). However, FDI inflows to India are much lower than those to China, and in the case of the garment industry are completely negligible (CITI Report, 2006). Furthermore, national news articles and interviews with government officials give a sense of disconnect between industry and government regarding the role of government in attracting FDI.<sup>12</sup> Tewari's (1999) work demonstrates the absence of FDI in the Indian garment sector. She argues that the lack of FDI or other formal mechanisms of knowledge transfer has contributed to delaying the upgrading of Indian garment manufacturing compared to countries like China, which has for the past few years sustained the number one ranking as largest garment producer and exporter in the world.

#### ***Active Informal methods of technology transfer***

Schmitz's (2006) studies on the Brazilian footwear industry suggest that more often than not informal mechanisms of learning are overlooked by mainstream knowledge transfer studies, which tend to focus on formal mechanisms of knowledge transfer and often use R&D-based criteria to measure of the level of knowledge and technology transfer. Such measures and mechanisms are unsuitable for low-tech industries like footwear and the garment manufacturing industry, where R&D activity would occur rarely if at all. Thus using the Ernst-Kim matrix is important as it helps investigate and explicate the informal mechanisms for knowledge transfer activities taking place between IGMs and buyers.

#### ***Role of buyer & Proactive, capable IGMs***

Overall, quadrants three and four have been most relevant to this study in explicating the upgrading behaviour of IGMs, especially in the higher-value areas of design. However, despite the emphasis placed by GVC-based studies on the role of lead buyers in disseminating knowledge and learning, the Ernst-Kim framework points out that in the case of IGMs this has been through non-market-mediated means, such as technical assistance and achieving quality and compliance standards. The matrix further indicates that the type of upgrading has been restricted in these specific areas, with very little if any upgrading in higher value added areas like design. Another important observation from the analysis presented above is the often

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<sup>12</sup> In an interview, a high-level official in the Ministry of Textiles of the Government of India agitatedly exclaimed, "The government has opened up FDI fully," and exasperatedly added, "What more do they [IGMs] want us to do?" (At this point, the researcher felt it was better to discontinue further pursuing the line of questioning).

undervalued or overlooked role of the supplier and the effort and initiative they themselves must exert to achieve upgrading. It seems that the GVC framework in this respect is very buyer-centric, assuming the more powerful role of the buyer vis-à-vis the less powerful and possibly submissive supplier. This portrayal of suppliers as reactive rather than pro-active participants' gives IGMs little credit or responsibility for being owners of their own business and thus controllers of their own strategies for learning and upgrading. Many case companies in this study report it is due to their own efforts and initiation that they have been able to learn and upgrade their activities, and not as a result of their buyer's strategies or initiative.

The above pro-active participation of manufacturers themselves in initiating their upgrading can be interpreted and understood using Cohen & Levinthal's (1989) concept of "the absorption capacity of knowledge" by the supplier, which suggests that upgrading depends on the intensity of the IGMs' own efforts to absorb the knowledge. This is made more obvious when observing a company like MI, which is highly fashion oriented in comparison to AT. MI makes considerable investments in the design studio, and is constantly investing in the development of new designs, for apparel as well as fabric. These are then catalogued so that they can be archived for future use when need be. They also have a similar approach in their manufacturing activities; all feedback or technical assistance, however minimal, is logged into a book which can be accessed for future use and applied to their production for alternative clients when required. This shows efforts that involve continuous feedback and improvement mechanisms. In contrast, AT has a very relaxed attitude towards designing. They carry out the minimal necessary design requirements requested by individual clients, and only if requested. Otherwise, they work from a detailed tech pack provided by the buyer. AT also prefers not to have to design, seeing it as a hassle and a headache rather than an opportunity for functional upgrading. Thus, the absorptive capacities of IGMs are also an important consideration when considering their upgrading prospects and what factors help or hinder them.

Analysis of the case data appears to suggest not only the proactive nature of many IGMs, but that some IGMs have also reported buyers as not being able to help them learn new techniques or achieve certain finishes as often buyers don't possess the knowledge required to achieve the desired product specification. Instead buyers increasingly are seen to rely on producers to meet their requirements and in some cases come up with new suggestions and keep the buyer up-to-date with emerging trends and new techniques. Thus it seems that as suppliers are urged to become more capable, buyers are steadily decreasing their knowledge base and instead

relinquishing control over their core activities, or what previously would have been considered a core activity. The example of the design process, discussed above, provides evidence on this migration of knowledge from buyers to producers; where previous GVC based studies report design to be the core (and closely guarded) activity of the buyers, who were wary of encroachment by producers, findings from this study suggest the contrary. IGMs report that most buyers expect suppliers to be able to carry out a lot of the design function as this is fast becoming a more cost effective option. Once again this affects the conceptual framework constructed in Chapter 3. There is a further need to augment the framework. The framework only provides a one way link (represented by a solid black arrow) suggesting the direction of knowledge transferred is from foreign buyer to supplier. There is also the need to further investigation of the possibility of the above emergent link, wherein the supplier also imparts knowledge to the buyer, rather than only vice versa. Thus similarly, analysis of findings from this study supports a combined approach to understanding the upgrading patterns of IGMs, as no one theory is sufficient to fully understand IGM upgrading. Here, applying theories of internalisation (Buckley and Casson, 1974), RBV/KBV, the Ernst and Kim matrix and international entrepreneurship have helped achieve a more nuanced understanding of the complexities that prevail in IGMs' decision to upgrade.

These theories indicate that despite the frequent suggestions made by GVC and related literatures, lead buyers are not the sole influence on IGMs' upgrading decision and prospects. In fact a range of alternative factors and the individual entrepreneurs' own characteristics and risk perceptions, amongst other factors, play an equally if not more important role in influencing and impacting the upgrading and internationalisation trajectories followed by IGMs.

The study provides a unique take on the internationalisation and upgrading prospects of producers within a value chain, showing IGMs to be very much in control of their own upgrading and internationalisation decisions and growth prospects. Its significance lies in indicating that much attention has been incorrectly focused on barriers to internationalisation and upgrading ostensibly created by lead firms and should be refocused on the barriers producers themselves erect.

In summary of the above presented discussion, the significant conclusions of the study are presented in Table 40.



Figure 28 at the end of this chapter includes this link (represented by a dashed arrow) that shows the possibility of knowledge being transferred from supplier to buyer; it is a link that requires further testing by future research.

These findings suggest the need to redress the knowledge balance within value chains. Along with a shift in knowledge to some extent there has also been a shift in power dynamics where suppliers find themselves in a position to influence buyers, in particular when setting prices. No longer can all manufacturers be described as simply price-takers; some (MI, KK) report how their select knowledge of applications in design, detailing and finishing allows them to set prices, which buyers who require specific desired finishes are willing to take. This finding calls into question the prevalent literature and conventional GVC-based beliefs on the power dynamics between buyers and suppliers, particularly from low-tech industries such as the garment industry. This holds important implications for development study organisations, who through the use of GVC based studies derive policy recommendations about local producers based in developing countries gaining from integrating their business into the production networks of large lead firms who help them to participate in trade and in addition help them upgrade through imparting knowledge (Gereffi and Memedovic, 2003; Humphrey and Schmitz, 2002; Gereffi, 1999a).

## **6.17 International entrepreneurship**

The above discussions regarding IGMs' upgrading prospects and activities, and the factors that drive or hinder them, recall the literature on international entrepreneurship. Oviatt and McDougall (2005: 540) define international entrepreneurship as being "the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services." The factors discussed above that drive upgrading seem related to and determined by a combination of the individual entrepreneurs' "innovative, proactive, and risk seeking behaviour" (McDougall and Oviatt, 2005: 539). McDougall and Oviatt (2005) indicate that these three factors were first identified by strategic management literature. Employing literature and concepts from international entrepreneurship would shift the focus from the firm and its progress to the behavioural patterns and characteristics of individual entrepreneurs. Our findings show that the many of the factors identified (e.g., the recognition or 'discovery' of an opportunity, as well as the enactment of the opportunity) have been the key factors driving companies to upgrade their activities.

It seems that future research on the upgrading patterns of companies needs to factor in the enabling force that is the entrepreneur. Studying the characteristics and behaviours of entrepreneurs themselves seems important in understanding why certain firms upgrade to a particular level or degree whilst others are content with the status quo and reluctant to upgrade. Such findings also indicate that the upgrading of firms is less in the hands of foreign buyers, especially in the case of IGMs, where there is negligible FDI, and any knowledge transfer happens to very limited degrees. This is not to say that this small degree is not important, as firms who work with foreign lead buyers are more likely to know the relevant demands and requirements. The point is rather that much of the upgrading for IGMs has been based on their own pro-active efforts and on the individual entrepreneurs' world views, their understanding of the context within which they are situated. Thus, risk perceptions differ, and opportunity recognition and enactment differ accordingly, for individual entrepreneurs, who in the end can be viewed as the driving force behind firm upgrading patterns.

### **6.18 Conclusion to Section 3**

Discussion of findings from this last section, Section 3, suggests IGMs participate in a range of upgrading activities. The chapter also highlights the importance of viewing these upgrading activities from an international business perspective, using IB concepts, to further understand their upgrading activities. Furthermore, it is possible to reiterate that the upgrading prospects of IGMs is often shaped by their own needs and wants rather than solely shaped by the production networks of large foreign buyers that they cater for. This seems especially true when upgrading to the design function, which was previously thought to be hindered by lead buyers.

### **6.19 Conclusion**

This thesis employed a case-based approach to examining the internationalisation and upgrading activities of Indian Garment Manufactures (IGMs). A review of the literature indicates the high regard development study academics and organisations place on the Global Value Chain (GVC) theory in guiding their research and policy formulation on the internationalisation and upgrading prospects of local producers based mainly in developing countries and emerging markets. The prominence of the theory is further demonstrated by its widespread use and application. However, a critical review of the theory reveals limitations and gaps and has led to examining

the relevance of alternative theoretical perspectives in the field of International Business (IB) which seem more apt at explaining certain observed internationalisation and upgrading behaviour of Indian garment producers, not captured through adopting a pure GVC approach. The relationships and linkages between the two fields of study were illustrated in a conceptual framework in Chapter 3. These assumed linkages themselves have been tested for their robustness in examining the subject matter at hand. The main additions to the framework are: firstly, the acknowledgement of an additional type of upgrading that is market/channel upgrading represented by the dashed box under the various upgrading categories and secondly acknowledging the missing link that captures the flow of knowledge transferred from manufacturers to buyers, an important finding suggesting the possible migration of knowledge taking place from buyers to suppliers/producers (represented by the dashed arrow connecting lead buyer's governance structure and producer upgrading). Both these additions are presented in the augmented version of the conceptual framework in.

This chapter grounds the discussion of findings in current debate and explores the relevance of both GVC and IB concepts to the study of firm internationalisation and upgrading. By taking a combined approach, a more nuanced and comprehensive understanding of the subject matter is arrived at, as any one theory on an individual basis is inadequate to fully explain the internationalisation behaviour and upgrading prospects of IGMs. This is particularly true for the born global theory, which at the outset seemed to explain the majority of the IGMs' internationalisation activities. However, deeper investigation of their progress showed that they have not retained their BG status as described by BG literature (McDougall, Shane, and Oviatt, 1994; Chetty and Campbell-Hunt, 2004; Gabrielsson et al. 2008). Instead alternative theories of internationalisation (e.g., de-internationalisation and extra-regional expansion) seem more fitting in explaining the internationalisation patterns of the maturing IGMs.

Similarly, analysis of findings from this study supports a combined approach to understanding the upgrading patterns of IGMs, as no one theory is sufficient to fully understand IGM upgrading. Here, applying theories of internalisation (Buckley and Casson, 1974), RBV/KBV, the Ernst and Kim matrix and international entrepreneurship have helped achieve a more nuanced understanding of the complexities that prevail in IGMs' decision to upgrade.

These theories indicate that despite the frequent suggestions made by GVC and related literatures, lead buyers are not the sole influence on IGMs' upgrading decision and prospects. In

fact a range of alternative factors and the individual entrepreneurs' own characteristics and risk perceptions, amongst other factors, play an equally if not more important role in influencing and impacting the upgrading and internationalisation trajectories followed by IGMs.

The study provides a unique take on the internationalisation and upgrading prospects of producers within a value chain, showing IGMs to be very much in control of their own upgrading and internationalisation decisions and growth prospects. Its significance lies in indicating that much attention has been incorrectly focused on barriers to internationalisation and upgrading ostensibly created by lead firms and should be refocused on the barriers producers themselves erect.

In summary of the above presented discussion, the significant conclusions of the study are presented in Table 40.

Figure 28 Revised conceptual framework

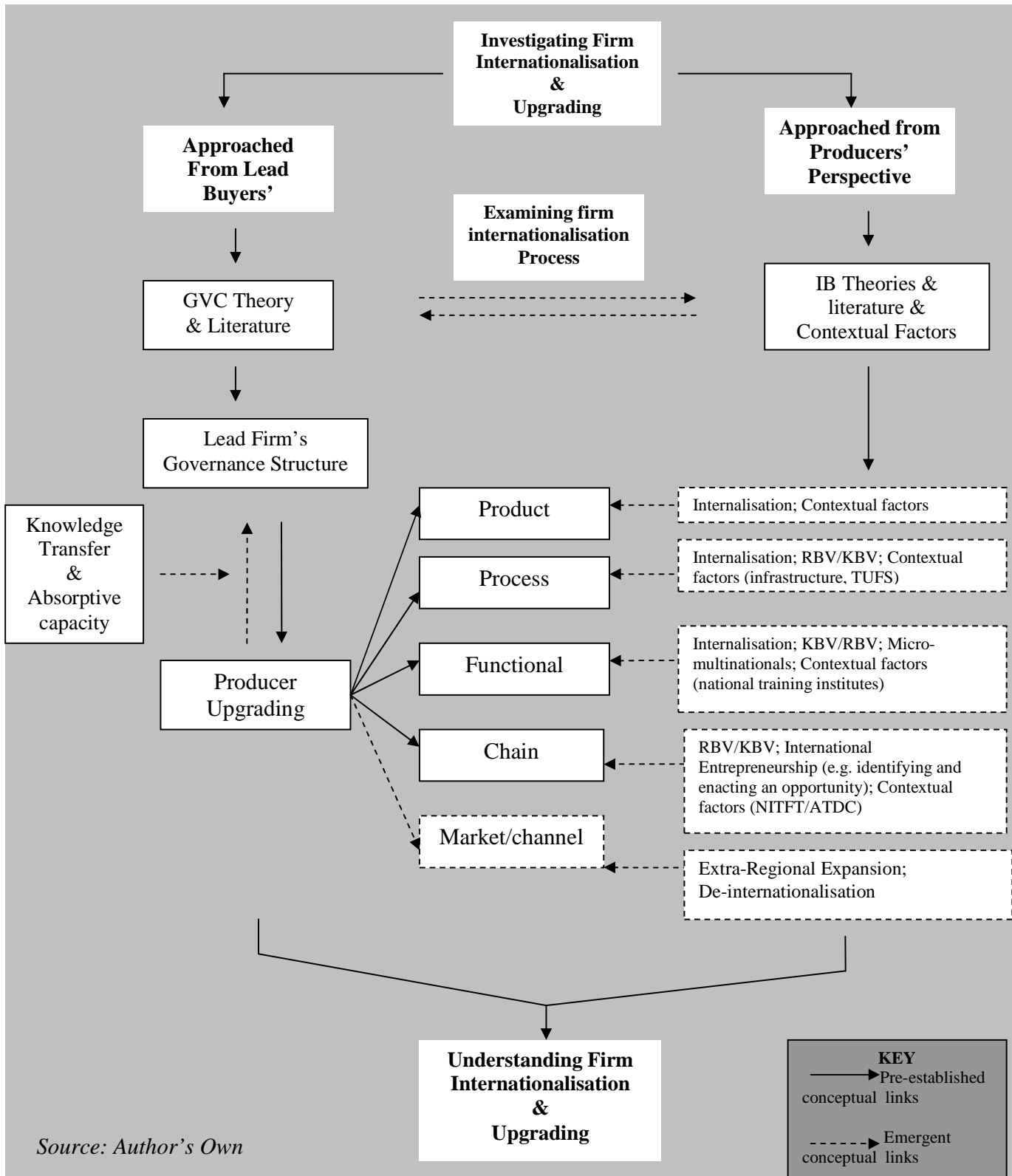


Table 40 Summary of key results

	Issue	Summary of Key Results
1.	<b>Diaspora Networks</b>	<ul style="list-style-type: none"> <li>○ IGMs' internationalisation does not depend on Diaspora ties or networks but instead on more official channels (Section 1, 6.1).</li> </ul>
2.	<b>Employing Comprehensive Definitions of Internationalisation &amp; Born Globals</b>	<ul style="list-style-type: none"> <li>○ To understand the internationalisation processes of IGMs it was crucial to employ a comprehensive definitional approach to the study of internationalisation, that is, including concepts such as, de-internationalisation (Section 1, 6.3) and extra-regional expansion (Section 1, 6.4).</li> <li>○ Furthermore, although IGMs showed characteristics of being born global companies, again, using a range of born global conceptualisations, such as 'the mature born global' (Section 1, 6.3) and 'the failed born global' (Section 1, 6.3) was important in enabling an accurate mapping of IGMs internationalisation trajectories.</li> </ul>
3.	<b>GVC Approach: Buyer Centric</b>	<ul style="list-style-type: none"> <li>○ A pure GVC-based approach does not allow for a full and at times accurate understanding of the internationalisation and upgrading prospects of firms (Section 2, 6.7).</li> <li>○ In particular, GVC can be overly buyer centric in its approach to understanding firm internationalisation and upgrading, instead alternative contextual factors are more appropriate in examining and explaining IGM international choices and activities (Section 2, 6.8 and Section 3, 6.15.2).</li> </ul>
4.	<b>Black Box: Design Upgrading</b>	<ul style="list-style-type: none"> <li>○ Opening the black box that was design (Section 3, 6.14.1), we find it to be a complex function that encompasses various practical as well as design-specific characteristics (Section 3, 6.14.2; 6.14.3; 6.14.4) that lends the design function to be difficult to upgrade to. These factors offer an alternative explanation to previous GVC-based studies that report design to be the core competency of buyers who are as a result unwilling to relinquish control and thus prevent producers from upgrading to the design function.</li> <li>○ In fact IGMs very much participate in the design of the products, albeit at varying levels.</li> </ul>
5.	<b>Proactive Vs. Reactive</b>	<ul style="list-style-type: none"> <li>○ IGMs are much more proactive and in control of their internationalisation and upgrading activities than GVC literature leads one to believe, as factors others than the lead buyer, such as their own needs, perceptions of risks and alternative contextual factors, particularly domestic and firm-specific factors, shape their decisions (Section 3, 6.15.1; 6.15.2).</li> </ul>
6.	<b>Capable Producers</b>	<ul style="list-style-type: none"> <li>○ As producers become increasingly capable we find a shifting in the balance of knowledge and influence from buyers to producers/suppliers (Section 3, 6.15.2).</li> </ul>
7	<b>Combined approach: IB &amp; GVC</b>	<ul style="list-style-type: none"> <li>○ Combining GVC concepts with International Business concepts allows for a more nuanced and enhanced understanding of firm internationalisation and upgrading, discouraging a less myopic view of the subject matter and instead adopting a more inclusive understanding of developing country firm internationalisation and upgrading activities and prospects (Section 3, 6.18).</li> </ul>



# Chapter 7 Conclusion

## 7.1 Thesis overview

This study investigates the internationalisation process and upgrading prospects of garment manufacturers in Mumbai (Bombay), one of the main export hubs for garments in India. An eclectic approach is adopted in studying the internationalisation activities and upgrading prospects of Indian Garment Manufacturers (IGMs). This is achieved using a combination of theories and concepts primarily from two broad fields of study: the field of International Business (IB) and the field of Development Studies. Specific concepts from the field of international business (which envelops international entrepreneurship literature, international strategy literature and economic based theories of internationalisation) include: the internationalisation process of the firm (Johanson and Vahlne, 1990, 1977; Bilkey and Tesar 1977) Cavusgil, 1980); their pre-export activities and behaviour (Wiedersheim-Paul et al., 1978; Garnier, 1982); Diaspora network based conceptualisations of internationalisation (Kapur, 2001; Khanna, 2000; Gillespie, et al. 1999); the concept of the born global firm and international new ventures (Rialp et al. 2005; Luostarinen and Gabrielsson 2004; McDougall and Oviatt, 2005, 2000; Autio et al., 2000); theories on resource based view and knowledge based view of the firm (Barney, 1991) and economic based concepts of internationalisation, in particular, the concept of internationalisation (Buckley and Casson, 1976).

A framework of analysis, developed at the outset, combines these varied conceptualisations of internationalisation with concepts from the Global Value Chain (GVC) theory (Sturgeon et al., 2008; Gereffi et al., 2005; Gereffi, 1994), the latter of which is rooted in the field of development studies. In adopting a combined approach the framework aimed to provide a more nuanced, and holistic understanding of the internationalisation and upgrading practices and prospects of IGMs. Achieving a comprehensive understanding of firm internationalisation and upgrading is not possible when studying the subject purely from an international business analytical lens or when using a GVC lens, as each analytical approach suffers from limitations and if used in isolation would produce constricted and incomplete accounts of the underlying issues at play. In particular, it is found that complementing GVC upgrading concepts with theoretical concepts and insights from the field of IB greatly enhances the analytical capacity and ability of the GVC framework. Thus, using concepts from IB and GVC theory has helped this research to explore and uncover a



wider range of factors that shape, influence, and drive the internationalisation and upgrading trajectories of IGMs.

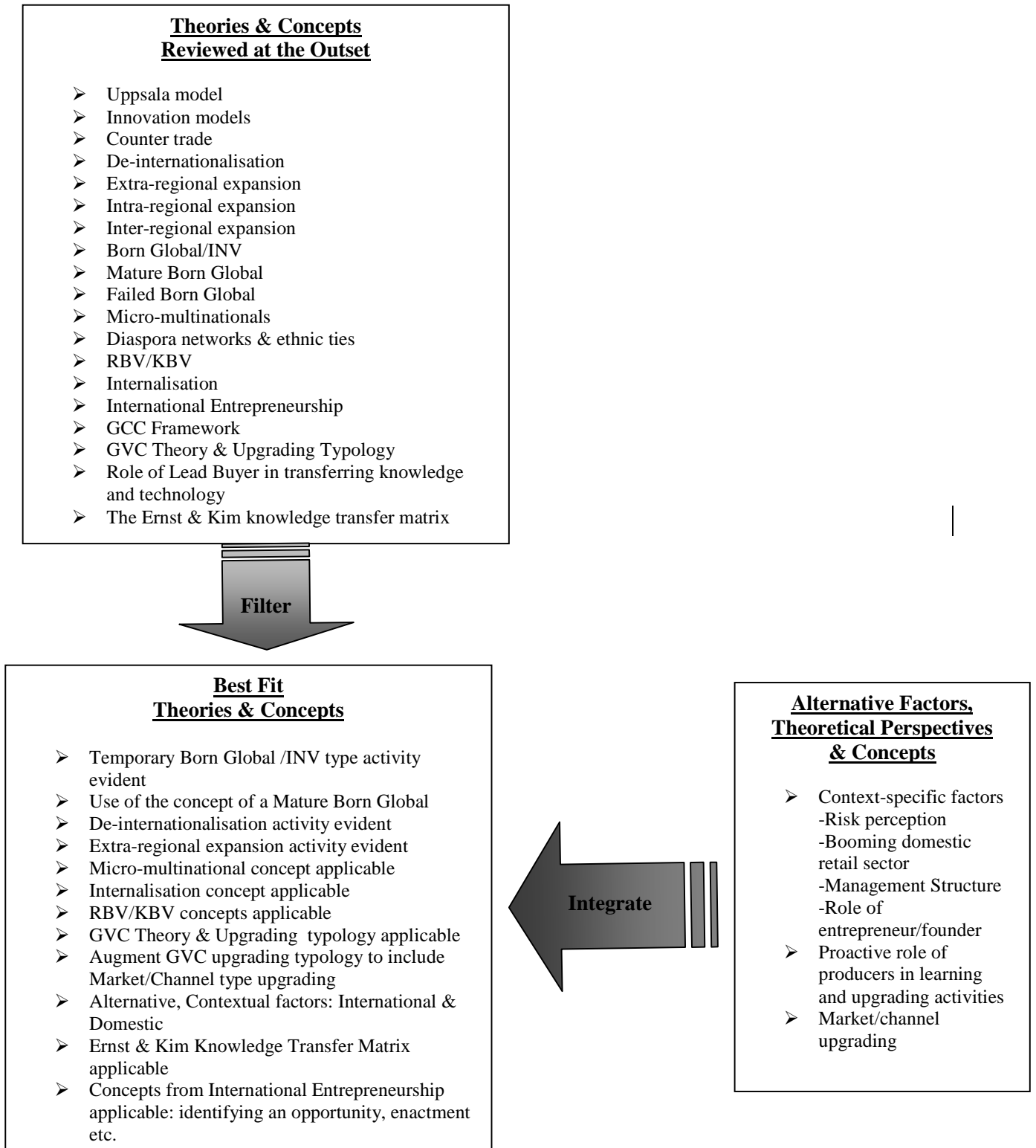
The research uses an inductive, qualitative approach to investigating IGM internationalisation and upgrading patterns, which has enabled findings that build a rich and in depth understanding of the phenomenon under study. This involved exploring the process and speed of internationalisation, in addition to exploring context-specific factors that influence firms' access to foreign markets and informs their upgrading decisions and trajectories. In addition, the role of the lead firm as knowledge supplier, emphasised by GVC theorists, is explored. In doing so the issues and concepts of learning, knowledge acquisition, and the importance of suppliers' proactive efforts and willingness to learn are explored in understanding how IGMs upgrade their activities to higher value-added functions of the garment production chain, especially in the areas of design and branding for foreign markets. The study employs a case study methodology to examine these issues.

Explanations and findings uncovered from the study have theoretical implications of an interdisciplinary nature and bear practical and managerial implications on a broader level for garment manufacturers based in low-wage countries attempting to internationalise and upgrade their businesses. Having provided an overview of the thesis the ensuing sections of this chapter draws out the theoretical, policy and managerial implications of the key findings from this research. The chapter goes on to highlight the various limitations of the research, and closes with suggestions for future research.

## **7.2 Implications of key findings**

Various theoretical perspectives and concepts of an inter-disciplinary nature have been used to address the three key research question posed at the outset of this thesis. Some have been useful in explaining the emergent findings from this research whilst others have been less helpful, and in some cases not applicable. Moreover, some theories and concepts have had to be modified by augmenting their analytical categories to achieve a more rounded or inclusive understanding of the dynamics at play. Furthermore, alternative concepts that provide a better analytical lens through which issues can be viewed have also been integrated into the discussion of findings. **Figure 29** below summarises the various concepts employed at the outset of the study and indicates both those that 'best fit' in explaining the observed dynamics and the alternative concepts that were needed to augment the theories and concepts found in the existing literature.

Figure 29 Summary of theories from the outset, alternative factors & best-fit theories



Source: Author's Own

The various theories employed at the outset of this study have already been discussed in Chapter 2 of this thesis; in this section, theories that have been filtered from the established set of theories as ‘best fits’ in terms of explaining findings are reviewed. This section also reviews alternative factors, theoretical perspectives, and concepts that can supplement the ‘best fit’ theories to provide a better understanding of findings. Using a combination of theories and viewpoints has helped to achieve a more rounded and coherent understanding of the underlying factors and processes at work in the internationalisation and upgrading of IGMs. Furthermore, implications of the theoretical changes and augmentations are discussed together with any policy or managerial implications that may be relevant.

### **7.3 Best-fit theories & concepts**

#### **7.3.1 Best-fit conceptualisations of IGMs’ internationalisation process**

International business theories, in particular the pre-export activities (Weidersheim-Paul, et al., 1978), Uppsala model of internationalisation (Johanson and Vahlne, 1977), and literature from international entrepreneurship such as that on the Born Global or International New Venture (INV) concepts (Oviatt and McDougall, 1995) were used together with the concept of Diaspora networks and ethnic ties (Kapur, 2001; Pandey et al., 2004; Nanda and Khanna, 2009) to examine IGMs internationalisation process. Several conclusions regarding best-fit theories can be drawn from the study. Firstly, it became evident through the course of the study that IGMs have followed a different and distinct model of internationalisation than their Chinese counterparts. Whilst Chinese garment manufacturers initially used Diaspora networks and ties, primarily based in Hong Kong, to access large foreign buyers, IGMs have relied predominantly upon pre-established networks of formal intermediaries, such as agents, buying houses and export promotion fairs present in India to access large foreign buyers.

Findings from this study confirm IGMs do not use diaspora networks in accessing foreign markets; in fact IGMs show a strong reluctance towards employing such networks. This study makes an important contribution by going a step further and investigating this reluctance. It asks *why* IGMs strongly reject employing or connecting with Diaspora when internationalising; a question unanswered by existing literature and studies. Findings reveal a mix of factors is responsible. These range from the negative perceptions held by IGMS of doing business with Diaspora to the lack of Indian Diaspora’s connections to lead buyers/retailers in the garment industry as well as the fact that much of the Indian Diaspora does not possess the necessary

skills set or relevant experience pertaining to the garment industry. Essentially, this renders the choice of using Indian Diaspora an unfavourable and ineffective option despite the existence of large populations of Indian diaspora located in major garment importing countries such as the US and UK.

An easier and more useful alternative, preferred by IGMs, is to employ official networks to access foreign buyers and in this way conduct their international business. The existence of official networks, particularly in India, can be attributed to the conducive environment India offers to garment retailers' world over as a key sourcing destination; it is possible to source all related components and raw materials required in the production of garments. Strong domestic, supply linkages support the Indian garment industry. All raw materials, from the cotton, to the yarn, to the fabric, as well as all the processing industries to convert raw materials into finished or semi-finished goods, are available in India. The importance of these strong backward linkages means India is seen as a significant sourcing destination making it economical and logistical sense for large retailers to locate their buying offices in.

India's garment manufacturing industry could be contrasted to the case of Lesotho (Lall, 2005) and other similar African garment producing countries (Minor, 2005; Salm et al., 2004) whose garment manufacturing industries are considerably underdeveloped and immature. Lesotho's main industry is in the manufacture and export of denim jeans, but compared to India, its backward linkages in the supply chain are extremely weak, and thus almost all raw materials and necessary inputs needed in manufacturing garments are sourced from abroad as imports (Lall, 2005). For example pre-dyed fabrics and accessories are imported from abroad. Lesotho only carries out the most basic manufacturing functions, that is the CMT (cut, manufacture and trim) operations. Furthermore, Lesotho does not support an official network of intermediaries that enable manufacturers to connect to foreign buyers. In fact, a high percentage of manufacturers in Lesotho are foreign companies who are located in Lesotho to take advantage of duty-free access of manufactured garments to US markets due to Lesotho's membership in the African Growth Opportunity Act (AGOA). These foreign manufacturers, mostly from East Asia (in particular Taiwan), already have pre-established access and ties to Western markets and buyers prior to setting up factories in Lesotho and therefore do not need any intermediaries to connect them to foreign buyers.

Studies on African garment producing countries suggest similar constraints riddle other African garment producing countries such as Mozambique (Minor, 2005) and Botswana (Salm et al., 2004). Manufacturers operating under such conditions will have to depend on alternative or substitute networks or even build their own networks to access foreign buyers' production networks. Alternatively, they may consider nurturing self-sufficient value chains which would attract and foster networking infrastructure, such as large buyers buying offices. Without such value chains the chances are that countries like Lesotho, Mozambique and Botswana will be unable to upgrade their garment manufacturing capabilities and with it the ability to extract higher earnings for their workforce. Instead such countries will merely serve as intermediary, transit ports for passing trade, where higher rents are extracted and enjoyed by the end buyers and main suppliers/manufacturers. On a policy level these Policy countries need to encourage the establishment of backward linkages if they are to attract more than just passing trade and instead be considered as serious sourcing hubs yielding long term economic growth possibilities the particular industry and the economy. However, building a well-entrenched and strong garment and related sectors supply chain to attract buyers is not easily replicable, requiring time and considerable investment and know-how. To this extent Indian garment manufacturers can consider such a supply chain as part of their resource base allowing them to enjoy sustainable competitive advantages over newer producer countries.

Secondly, when considering the pace of internationalisation, IGMs in this study show a propensity to internationalise at an exceptionally accelerated pace, which is surprising considering the garment sector is a low-tech industry. Evidence of rapid internationalisation is rarely linked to firms from low-tech industries and more commonly found in firms from high-tech industries. This accelerated pace of internationalisation can be explained by a combination of factors: initially the lack of a domestic market for ready-made clothes which lead IGMs to seek foreign markets; supportive, export-led growth policies by the Indian government (particularly allowing the import of duty free plant and equipment) encouraged IGMs to set-up 100% export orientated units (EOUs) or manufacturing plants; and lastly the presence of pre-established networks as discussed above further enabled IGMs to pursue an internationally focused growth strategy. In particular, such networks have been crucial in enabling IGMs to bypass the more traditional, process-based, incremental approach to internationalisation whereby companies initially follow up unsolicited orders from abroad and in this way build foreign contacts before being seriously able to consider expanding their business to a series of psychically close foreign markets.

At first, this accelerated form of internationalisation experienced by IGMs seems to be best understood using the Born Global (or INV) concept. However, IGMs' born global or INV characteristics seem to wane as they mature. Instead of pursuing a global expansion strategy as they mature they tend to focus their international expansion efforts on specific regions (intra-regional expansion), for example targeting different states within North America, where similarities in fashions, tastes and preferences prevail. Various alternative factors, such as practical reasons related to the designing of garments, also influence intra-regional expansion decisions. Such patterns of internationalisation are better explained by traditional theoretical approaches rather than Born global and INV conceptualisations. Insights into the activities and internationalisation patterns of the mature born global is rare and is an important contribution made by this study. But it also holds important implications for researchers studying so called born global type firms. It is recommended that researchers use a longer timeframe within which to conduct studies on newly internationalising, born global type firms or if dealing with a mature born global firm then to conduct a thorough examination of its historical progression from its inception to its current state. Introducing a time-sensitive element to the study is crucial and produces greater levels of accuracy when analysing data that enables results that illuminate vital changes in the course of a firm's internationalisation trajectory. The case of the mature born global is a greatly under researched topic. Often studies of this type concentrate their efforts on the firm's earlier years, directly subsequent to a firm's date of inception, with scant or no consideration for the more mature phases of the firm's life cycle. Furthermore, testing for the possibility of a firm being a 'failed' or temporary born global is important, as affirmation of such a status means the firm has continued onto another path of internationalisation, if it has not ceased to operate altogether.

Thirdly, IGMs in this study report future plans to de-internationalise by gradually decreasing and extricating themselves from their international commitments (some like SI have already begun the process); instead they intend to realign their expansion strategies by taking advantage of emerging opportunities in a domestic market where prospects of achieving lucrative and quicker yields are strong motivating factors. India's retail sector is booming and is an important contextual factor impacting IGMS current internationalisation decisions. By focusing on their domestic market IGMs show evidence of following a path of extra-regional expansion and growth, whereby they are in the process of considering plans to expand into alternative cities and states to the ones they are already located in within their home country; by definition these new

locations are akin to 'foreign' territories (some like CG, PRO and SD have already embarked upon this path). When asked about the possibility of reconsidering expanding back into foreign markets many suggest such an option to be as yet too early to even begin considering. The applicability of theories such as de-internationalisation and extra-regional expansion suggest IGMs are failed born globals or as argued in the previous chapter, should not be labelled as failed but more appropriately can be said to hold temporary born global status, due to their choice to discontinue expanding internationally as they mature. Contextual factors, both international and domestic, such as the strong growth of an organised domestic retail market for ready made clothes within India and waning, recessionary international retail markets of the US in particular, amongst other alternative factors, have had a definite impact on IGMs internationalisation patterns and future trajectories.

Overall, when assessing the process of internationalisation undertaken by IGMs, the majority have at the outset followed a born global (INV) path but as they mature and as their contextual environment, within which they are embedded, changes they have reverted to or express strong future plans to refocus their business activities to the domestic market and thus can be essentially said to have changed to following a more traditional path to internationalisation better explained by pre-export behavioural theories of the firm and possibly, at a later stage, may even be seen to adopt the an Uppsala model based pattern of internationalisation. The theoretical implication of such findings is that traditional models of internationalisation (process based models) and pre-export models of firm behaviour (extra-regional expansion) still remain important and relevant conceptualisations explaining firm internationalisation, despite the advent of new conceptualisations of the internationalisation process, particularly concepts from born global and INV.

The findings also suggest that the internationalisation trajectory of a firm is a complex mix of paths, often with no clear, single path being followed throughout their existence. Consequently, explanations of firm internationalisation cannot be confined to any one conceptualisation of internationalisation but often a holistic approach, combining various models, is necessary to accurately explain the varied paths. It is more likely that these paths are determined by the contextual factors, both international and domestic, that drive, impact and shape firm decision making, as observed in this study. The implication is that future studies on the internationalisation process of IGMs need to employ a combination of models to test firm

internationalisation trajectories and behaviour, and must take into account contextual factors that play a key role in steering the paths taken by firms.

### **7.3.2 GVC theory**

The Global Value Chain (GVC) theory was used as an analytical framework to loosely guide the second and third research questions addressed in this thesis; the former question concerns factors that affect IGMs' access to foreign buyers and the latter concerns the upgrading activities and prospects of IGMs. Findings suggest that the GVC framework has been useful in some respects to understand the issues surrounding firms' access to foreign markets, and especially functional in investigating firm upgrading. Using GVC concepts is particularly applicable in cases where IGMs access and cater to the production networks of the larger retailer, or 'lead firm' as the premise upon which GVC theory investigates the internationalisation and upgrading prospects of producers based in low-wage countries is that these producers are better able to access foreign markets and upgrade their business activities by participating in the production networks of large foreign buyers/retailers, the 'lead firm'.

However, herein lies the problem. Many IGMs in this study do not solely cater for lead firms, and in some cases choose not to cater for lead firms' altogether; instead IGMs cater to a range of non-lead firm type buyers. The most commonly sought after buyer by IGMs in this study, that is not a lead firm, is the small branded fashion retailer. Such buyers can be characterised as those that use the retail concept of a boutique, whereby their retail strategy is to market products at higher, premium prices, which in turn reflects the products added design and detailing content (e.g. using embellishments, sequencing and prints etc), exclusivity and scarcity; products are available in smaller batches and have a shorter shelf life due to the fast fashion trends they follow. This is in contrast to lead firms who are larger, volume-based buyers, whose retail strategy is commonly based on economies of scale which enables them to make available huge volumes of standardised products at low prices. The fashion-orientated buyer as such is not the archetypical 'lead firm', but can still be identified as a well-recognised international clothing brand. IGMs show a preference towards this type of buyer as their production set-up, firm structure and perception of risks are more aligned and suited to serving the smaller fashion orientated buyer than the lead firm type buyer.



Thus in light of such findings academics and practitioners that use the GVC theory as a guiding framework to researching the internationalisation and upgrading prospects of firms, which in turn results in formulation of policy recommendations, must take into consideration the theory's limitations. That is, GVC theory places a disproportionate amount of emphasis on the role of the 'lead buyer' (which constitute the world's largest and most powerful retailers) in organising, influencing and deciding the internationalisation and upgrading activities, patterns and prospects of producers from developing countries. In addition, it does not consider various other types of foreign buyers through which local producers can cater to and access foreign markets. In general there exists a disparity in size between buyers and producers, the former being the larger of the two, and thus based on this it seems buyers are also afforded a larger proportion of the power between the two parties by GVC based research; buyers are depicted as the puppet masters in control of the strings that command the puppets (producers) moves and decisions.

However, findings from this study strongly contest such disparate power imbalances exist or at least that they are not as pronounced as GVC based studies suggest them to be. Instead IGMs insist they are very much in control of their own decision making and have choices which they act upon, at times regardless of the requirements needs and wants of larger buyers; often these choices will themselves involve selecting the appropriate type of buyer that will complement the individual producers own set criteria, which are shaped by a mix of alternative factors that are contextual in nature, and are discussed further in the ensuing section. These findings have important implications for researchers using a GVC approach to examine local producer's efforts to integrate themselves in international trade. Researchers must beware of the buyer-bias that pertains when using a purely GVC-based approach. Additionally, the prevalence of alternative types of buyers to lead firms must be acknowledged by managers who must not single-minded in targeting lead firms, as a popular choice advocated by GVC policy makers, without assessing whether the domestic context within which they operate and alternative factors such as their individual firm specific characteristics is well-suited to catering to lead firm type operations.

### **7.3.3 Alternative factors**

For those IGMs catering to the requirements of small boutique based, fashion-oriented retailers, various alternative, contextual-based factors, both domestic and international, seemed more relevant in determining IGM market access decisions and prospects than GVC theory's lead buyer-centric factors. In many cases, even for companies who accessed the production networks

of larger retailers, contextual factors played a role in their decision-making and international access patterns. The implication is that future research on value chains must ascertain what types of buyers' manufacturers' service, as this raises the question of whether a sole or heavy reliance on GVC theory as a guiding framework is appropriate. In addition, it seems all research conducted on value chains must integrate the element of contextual factors, as they seem to play an important role in conjunction with buyer-driven factors.

For example, a key contextual, domestic, firm-specific factor that affected the IGMs access to foreign markets was the discordance between management styles advocated by foreign buyers and practiced by local IGMs. This discordance seems to have led to a self-perpetuating vicious circle, which could be difficult to break. Despite calls from foreign buyers for professionally managed firms, many of the IGMs in this study felt it necessary to retain a high level of family management as they complained of experiencing high attrition levels when hiring outside professional-level management who is always in search for better jobs with higher income. In turn graduating students at managerial level seem to prefer seeking out jobs with domestic retailers who are more professional orientated than IGMs and offer them better prospects for career development.

Thus, in this study, such contextual factors determined IGMs' ability to access foreign buyers and included domestic, firm-specific factors, such as entrepreneurs' risk perceptions, firms' manufacturing set-ups and managerial style, as well as international factors, in particular lack of access to RTAs.

#### **7.3.4 GVC, knowledge transfer and proactive role of producer**

GVC was also used as a loose guiding framework to address the third research question, concerning the upgrading prospects of IGMs. The GVC framework has in many ways helped examine the upgrading prospects of IGMs. In particular, the upgrading typology produced by Kaplinsky and Morris (2001) allowed for a deeper within-function analysis of the design activity to be conducted. This helped to reveal that the design process occurs at varying levels, and thus upgrading within the design function is as important for firms wanting to upgrade their activities to higher value added activities as is upgrading to the design link of the value chain.

However, once again when looking at upgrading activities, the GCC framework and GVC theory tend to emphasize the role of buyers in driving upgrading activities, with the implication that knowledge is transferred from the lead buyer to the producer as a result of producers' participating in the production networks of these lead buyers. These views have been examined in this study. In examining the role of the buyer as a provider of knowledge, Kim (1997) and Ernst and Kim's (2002, 1997) model of knowledge transfer mechanisms was employed. The results are mixed. Some manufacturers felt lead buyers played an active role in providing technical support, but the way in which they disseminated the information was through informal or unofficial means, mostly when the requirements arose. On the other hand, many other manufacturers felt that buyers played a passive role in supplying knowledge, forcing them to rely on informal mechanisms to gain knowledge. In cases where IGMs used informal mechanisms, they learned through observation as well as through doing and experimentation. Learning through doing or learning through participation and experimentation required the IGM to take initiative and thus to be an active and willing seeker and acquirer of knowledge.

A further interesting development is that some companies in this study have experience and knowledge in certain areas of design activity that put them in a position to advise buyers rather than vice versa. Moreover, they enjoyed this position not only with respect to non-lead-firm buyers but also with their lead firm customers – the ones most often considered repositories of knowledge by GVC theory. Buyers, we found, often rely on suppliers' knowledge of new finishes, or even fabric patterns, as well as their ability to interpret and execute designs in cost-effective ways while remaining true to the themes, and look intended by buyers. Thus, it can be suggested that over the years some kind of knowledge migration from buyers to suppliers has occurred. Buyers who previously controlled all aspects of their production needs in-house have increasingly outsourced these, losing some knowledge as a result, and now have to rely on the competences of suppliers as sources of guidance and ideas. What this suggests is that being part of lead firms' production networks does not always benefit the supplier in terms of knowledge transfer; in fact IGMs reported minimal knowledge transfer and learning from their buyers.

Furthermore, the smaller buyers should be viewed as equally important prospective clients. In the case of the IGMs, it has been the smaller buyer that seems to have played a fundamental role in their internationalisation process and activities. Smaller producers are often capacity constrained, lacking the manufacturing set-up and structure to cater to the capacity requirements of large volume buyers. Their set-up is therefore more likely to be appropriate to catering to smaller buyers. In addition, by catering to small branded, fashion-oriented buyers, the

manufacturers gain the opportunity to experiment with design and other more value-added activities of the apparel production chain. In some cases, smaller buyers (and, in the experience of IGMs, some large 'lead firms' as well) lack design skills and knowledge and prefer for their manufacturer to take responsibility for the design function and provide them with design guidance as well as design content. In their study of the global wood furniture chain, Kaplinsky et al. (2003) have also noted the differing attitudes of buyers towards the design function, and suggest that some buyers are 'design takers' and others 'design makers'. Design takers are those who prefer the manufacturer to provide them with designs, while design makers will have their own protocol in designing. This may be in-house or outsourced to a third party, but in any case, the buyer is largely involved with the design decisions and outcomes. Thus, working with design takers gives IGMs the opportunity to dwell in the higher value added function of design and benefit from learning by doing.

Some GCC based research has also suggested that lead buyers hinder the upgrading prospects of their suppliers, particularly with respect to the higher value added function of design, as they see these functions as their core activities and are reluctant to relinquish control of them. However, the findings from this study show that manufacturers did not feel in any way that lead firms or buyers hindered their upgrading prospects in these particular areas, and instead pointed to alternative factors that shaped their decisions regarding upgrading to higher value added functions of design and branding. The newer GVC framework does recognise the role of some of these alternative factors. For example, it introduces the idea that certain types of transactions are harder to codify because of their tacit nature, like the activity of designing, thus making it difficult for buyers to impart this type of knowledge to their producers. This, in turn, affects suppliers' ability to assume full responsibility over the design function and thus upgrade to and within this function. This feature of GVC theory represents an advance in the understanding of upgrading activities. It allows for greater incisiveness when examining and explicating data from this study.

However, despite recent refinements, GVC based research retains its buyer-centric viewpoint, and the findings from this study give cause to question this. Indeed, certain findings from this study are inexplicable when using a pure GVC-based approach. Various alternative factors seemed better at explicating what determined and drove certain aspects of IGMs' international access and upgrading prospects. Most IGMs strongly asserted that foreign buyers did not prevent them from upgrading to the design function, reserving this for themselves, in contrast to the findings of some studies (cf. Schmitz and Knorringa; Ernst [2000] on the OEM trap in the

development of the Taiwanese electronics industry). Instead, firm-specific factors like individual entrepreneurs' varied risk perceptions and the structure of their companies were found to be the factors driving IGMs to access particular types of buyers over others and particular types of markets over others. With respect to design upgrading, many manufacturers indicated that the practical and contextual nature of design prevented them from upgrading fully; that is, moving to the conceptualisation of designs. Some manufacturers were simply content with the level of business they were operating at and did not see the need to disrupt this balance. Such manufacturers would be seen as less proactive in terms of their upgrading activities and more reactive; external shocks would drive them to change, but in the absence of these, they would adopt a wait and watch policy.

One possible explanation of the discordance between the findings of the older GCC literature and those of this study could be that at the time of older studies, design was more frequently seen as the core competency of buyers. However, as buyers streamline and restructure their core activities, as well as increase efficiencies through cutting costs, it is possible some buyers have demoted the design function to a non-core activity. Simultaneously, some producers are endeavouring to increase their capabilities in this area. Thus, design is slowly becoming less of a core competency to buyers and they have been more willing, as suggested by manufacturers in this study, to pass on the function to their suppliers. However, the problem of codifying design, a visual concept that is difficult to convey through written instructions or even at times by means of a pictorial representation, implies buyers may still need to retain certain levels of the design function, in particular the conceptualisation of design, which might present some manufacturers with barriers to upgrading fully in this area.

### **7.3.5 Combining concepts from International Business & GVC**

The conceptual framework revised in Chapter 6, provides an insight into how the various theoretical conceptualisations reviewed from IB literature and GVC literature fit together to help investigate and better explain IGMs' internationalisation and upgrading activities. Having collected and analysed relevant data pertaining to the phenomena under study it has been possible to assess the presumed relationships upon which the conceptual framework is built. That is, the plausibility of linkages made between the two fields of study is examined for their validity. Thus, in retrospect, it is possible to attest to the conceptual frameworks functionality in aiding the study of firm internationalisation and upgrading (it is acknowledged that to confirm

the functionality and robustness of the model it crucial to apply the model to various studies, and through this repeated application further gauge and confirm its feasibility and accuracy).

Conceptualisations from IB literature, in particular RBV and KBV, supplement GVC understanding of firm internationalisation. Whereas GVC places emphasis on the role of the foreign lead buyer in determining the course of and prospects for local firm internationalisation and upgrading the Resource Based View (RBV) of internationalisation approaches the subject matter from the point of view of the firm itself; it does this by taking stock of a firm's resources and capabilities. The manner in which small firms' leverage internal (physical, human and organisational capital) and external resources (institutional capital) at their disposable is crucial in enabling them to force an entry to foreign markets, survive, and reap sustainable profits - especially as otherwise such firms are known to suffer from the liability of smallness which is more than likely to hinder their internationalisation and upgrading prospects.

Evidence from this study holds important theoretical implications. Primarily, the fact that employing a pure GVC based approach does not adequately explain IGM internationalisation and upgrading prospects. In particular, the emphasis placed on the role of the lead firm is contested by evidence from this study. The lead firm in many ways can not be attributed to helping or even hindering IGMs activities. Instead a mix of heterogeneous and immobile, internal and external resources, context specific, to the Indian garment industry, has enabled and driven IGM internationalisation and upgrading. Furthermore, entrepreneurial managers that head most of the IGMs bear characteristics of determination, international vision and an ability to identify lucrative opportunities and enact on them, all behaviour and characteristics identified by international entrepreneurship theory and literature. In addition, various certain institutional resources such as the availability of government funded fashion institutes provides IGMs with the technical and managerial resources to effectively run their garment businesses as well as provides them the opportunity (which many IGMs have taken up) to upgrade their activities to more value added functions of the garment manufacturing value chain, such as designing. To this extent the recommendation for future studies is to adopt a combined approach to the study of firm internationalisation and upgrading as a wider set of factors affecting firm activities and decisions, other than those suggested by GVC based studies- i.e. the influencing role played by lead firms.

In a similar vein the theory of internalisation that derives from IB literature, when supplemented with GVC based upgrading typology provides a more enhanced and inclusive insight into IGMs upgrading activities. The concept of internalisation reveals, once again, factors other than the lead buyer, or even the foreign buyer per se (i.e. regardless of whether the buyer is a lead buyer or not), impact IGMs upgrading decisions. In fact the very act of upgrading can be interpreted using the IB concept of internalisation, wherein the internationalising firm realises that to internalise a particular operation or activity (forward or backward integration) may be a more cost effective option than to outsource the activity to a third party in the market, and for this reason the firm will decide to undertake the operation in-house. Employing an internalisation-based explanation suggests the decision to upgrade has very little to do with fulfilling foreign buyers needs and requirements and is more to do with IGM's efforts to contain costs and increase profitability. Again such evidence points to theoretical implications which call for a combined approach to studying the subject matter at hand.

Moreover, having adopted a combined approach to the study of firm upgrading, the findings from this study hold implications for firm level business strategy. For a firm to succeed internationally it is not going to be enough to rely on connecting with the production networks of large foreign lead firms, as often advocated by GVC literature. Evidence from this study suggests limited knowledge transfers taking place from buyers to manufacturers; in fact buyers are increasingly dependant on producers for advice and guidance, especially regarding the design function. From a RBV/KBV perspective it will be important for firms to build on the core competencies through developing an idiosyncratic bundle of resources that differentiate them from competitors and make them attractive to buyers seeking capable manufacturers who are able to take on greater levels of responsibilities. This is especially true when considering the activity of designing a garment. The hurdles local firms are likely to face in terms of upgrading to the design function is less from buyer resistance and more likely due to internal factors that are firm-specific and due to the very nature of designing which is a highly knowledge intensive and skilled activity and considered by the knowledge based view (KBV) as the most strategically significant resource. Factors such as manufacturers/entrepreneurs who view engaging in greater levels of the design function as risky or the specific characteristics of designing, such as the practicality issues and location aspects of design, are likely to pose as upgrading barriers for firms making it difficult to conquer this particular value added link within the apparel manufacturing value chain.

### 7.3.6 International Entrepreneurship

As noted above, the characteristics of entrepreneurs were found in this study to be of crucial importance. Among these, we note particularly the ability to spot an opportunity and enact it. In fact, in a study carried out by the Indian Ministry of Textiles (2007: 8), their 'Background Paper' draws attention to the presence of a "strong entrepreneurial class" as one of the major strengths of the Indian textile and apparel industry. Thus it seems the theory of International Entrepreneurship, which focuses on the crucial role of the entrepreneur in influencing and shaping international activities, seems more applicable in offering explanations as to the upgrading prospects of IGMs than do many of the GVC literature's buyer-led based explanations. However, although this exploratory study has identified the role of the entrepreneur as a key driving force behind the international access and especially the upgrading trajectories of IGMs, due to the limited scope of this study an in-depth exploration has not been possible. Thus, a definitive assessment of the role of the entrepreneur in influencing the internationalisation and upgrading prospects of the IGMs must be considered an avenue for future research.

Moreover, the field of international entrepreneurship could be well placed in terms of driving forward many of the contributions and theoretical suggestions made by this study, particularly, in marrying the important role of the international entrepreneur (as already acknowledged by international entrepreneurship theory) to shaping the prospects for firm internationalisation and upgrading. Although the study of international entrepreneurship does consider the characteristics of the international entrepreneurs and how these may influence their decision making, as highlighted by Zahra et al. (2002) the theory lacks in terms of considering the various *underlying motivations* that often characterise and shape entrepreneurs' decisions. In the case of the IGM-entrepreneurs who head and steer their individual firms these decisions concern not only their internationalisation activities but also their upgrading practices. Factors such as the entrepreneur's operational context and the resource endowments available within this context play an instrumental role in shaping the choices they make. For IGMs these choices include the scope and scale of operations, their upgrading choices, the specific buyers they choose to work with amongst various others factors; factors that this study, by having absorbed and integrated IB and GVC study, has recognised.



#### **7.4 Limitations of research**

Certain limitations exist to this study, which could influence the interpretation of the results derived, and it is therefore important to mention these to be aware of the implications of replicating such a study or contrasting it to other studies.

This study has employed a purely qualitative approach to understanding the internationalisation patterns and activities of IGMs. While this has served the exploratory nature of this thesis, where the aim was to uncover new and emerging developments or factors that fill existing gaps in explaining the internationalisation processes of IGMs, such a study has its limitations when considering the extrapolation of the findings to a wider population of companies. These findings therefore cannot be generalised to the entire population of Indian garment manufacturers, and even less so to the population of manufacturers in low-tech industries in emerging markets. Instead this study can serve as a starting point for further research, in which surveys can be developed to test the more universal applicability of the emergent themes and factors that this study felt identified as key for the internationalisation and upgrading prospects of the group of low-tech, emerging market, manufacturers it focused on.

While efforts were made to include a diverse population representing Indian Garment Manufacturers (IGMs) in the sample, the size of most companies in the study ranges between micro, small and medium sized businesses, with limited cases of large manufacturers. This is partly because the study was conducted on companies whose headquarters were based in Bombay, one of the major garment exporting hubs in India. This could affect the results in several ways. For example, in the sample of case companies participating in this research, none of the companies have upgraded through joint venturing (JVs) or collaborating with a foreign buyer. However, there have been cases of collaborating with foreign companies reported in the press as well as industrial magazines (cf. the case of Raymonds, a large textiles manufacturer that entered into partnerships via JVs with foreign firms to offer various processing functions). However, it is important to emphasise that the majority of manufacturers in India are small to medium sized businesses due to the excessively fragmented nature of the industry. These companies are less likely to have the financial resources and capacity to invest in the types of collaborations that larger companies are able to take on. For these reasons the results, regarding upgrading patterns of IGMs, do not touch on upgrading through collaboration or FDI (although it should be noted that statistics indicate that India receives little FDI in the garment industry).

Furthermore, most such collaborations occur in the textile industry, as is in the case of Raymonds, which is far more technology-intensive than garments.

A third limitation of this study is that no interviews were made with the international buyers that IGMs accessed. Having interviews with buyers could have provided further validation of the results offered in this study, as it would have allowed cross checking to be carried out. However, the scope of this study was limited and this exercise will have to be left to future research.

In addition, the breadth and depth of interviews conducted in each company are limited. For every case-company that was interviewed access was available to interview the main owner or manager of the company, with few companies enabling access to other personnel. However, often the companies were one-man shows or small enterprises wherein the owner held various responsibilities and thus felt he was the only person who could give reliable answers to the questions. The larger companies allowed the researcher to access second and third level managers; however, many companies, being privately owned, preferred that the owner himself was questioned, to protect their privacy and control the information they were prepared to reveal. This may affect the quality of the data collected, in that it gives a limited perspective of each company's operations, limiting it to the owner's point of view. It is possible that an owners view may differ from those who actually work on a daily basis on various functions within the company and therefore may have offered an alternative or varying view to the manager's/owner's perspective.

## **7.5 Suggestions for future research**

Besides contributing to a better understanding of the issues that surround the internationalisation and upgrading prospects of manufacturers in developing countries, as well as to the understanding the nature of theories used to explicate these findings, the present study has also revealed several areas that could be further researched.

First, this study has highlighted the importance of individual entrepreneurs in determining the process of internationalisation and upgrading patterns of IGMs. Thus, exploring the internationalising activities of developing country manufacturers using International Entrepreneurship Theory as a starting point would be an important lead to follow, as it may

uncover greater insight into the factors that influence and shape the internationalisation of these firms.

Secondly, the emergence of an organised and booming retail sector in India has led to two key developments that can impact the internationalising IGM and thus require further attention and research. An organised retail sector means the development of domestic and national level retailers who govern their own production networks. How such domestically based production networks will affect the upgrading prospects of IGMs (in comparison to those of international retailers) will be an interesting question, especially with regard to the areas of design, where they will no longer need to overcome the barrier of location- or context- specific issues, being based in the very market they cater to. In fact, a booming domestic retail market seems to have already affected many of the IGMs' future plans in this study. Whether these IGMs refocus their efforts to the domestic market at the expense of the international market will impact on the internationalisation patterns of IGMs, and we may see the emergence of a reverse process, whereby having first internationalised, they then de-internationalise to service the home country instead. Indeed, the Economic Times (Pandy, 2008) reports that with the current recessionary scenario facing key international markets of the US and EU, IGMs face "losses in the export market, [resulting in] textile and garment exporters...stepping up their presence in the domestic market." Thus, if this focus on the domestic market is to continue and expand on a wide scale this could also affect the textile and garment industry's ranking as the highest foreign exchange earner for the Indian economy as well as affecting the Indian economy in various other ways that require further research.

Third, as mentioned above, the present study looks at the issues covered from the perspective of the local supplier. The perceptions and reactions of foreign buyers have not been examined, and it would therefore be interesting and important to gain a buyer's perspective on the various issues discussed in this study. In particular, do buyers feel that there has been a shift in what constitutes their core competencies, especially in the areas of design? Moreover, if so, how would this affect their expectations of local suppliers' capabilities? In particular, what is their reaction and attitude towards emergent 'Apparel Design Outsourcing (ADO) studios' in India, like Munch and others alike, that provide a complete design service, whereby all aspects of designing a garment – from forecasting, idea generation and conceptualisation to execution – are determined by the Indian firm? Will foreign buyers embrace this idea on a wider scale, and if so how will this impact the Indian garment industry and other garment producing countries?

Lastly, due to the limited scope of this study a cross industry analysis was not possible. However, for future studies it would be interesting to replicate the study on various other industries, in particular the leather shoe industry and the diamond industry in India. These industries in their own way share certain similarities to the garment industry. Both are labour intensive industries; however, unlike the garment industry, the leather industry has not fared as well in terms of exports. It would be interesting to identify what factors make one industry more successful than another, and using value chain analysis suggest possible areas of improvement. With regard to the diamond industry, it is the second highest foreign exchange earner in the country, despite having to source most of its raw material from abroad (unlike the garment industry, which has strong backward linkages and a fully integrated supply chain). Again a comparative study identifying the success factors of both industries and comparing their strengths could lead to understanding what factors contribute to the successful internationalisation of these industries and whether they converge or differ greatly. Furthermore, the diamond industry provides an interesting comparative study in which to further test the importance of having strong backward linkages and a fully integrated supply chain in helping to boost local manufacturers' international competitiveness. Indeed IGMs have leveraged the presence of a strong domestic apparel supply chain to their advantage when competing in and accessing international markets. However, this does not seem to be the case for the Indian Diamond Industry, where the raw material, particular mined stones, is mainly sourced from abroad. What differentiates the two industries success could have important implications that need to be further researched.



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# **Appendix A Interview Schedule (a)**

## **Questionnaire**

The purpose of this meeting is to understand the internationalisation expansion and upgrading plans of Indian apparel manufacturers. Any information provided will remain strictly confidential as it is for pure academic purposes. From this study I hope to achieve a greater understanding of how Indian companies can compete successfully in international markets, and thus hope to learn of their experiences and the factors that contribute towards improving and sustaining their international competitiveness.

### **CONTENTS**

#### **Section 1 Back Ground**

- A) Respondents Back Ground
- B) Company Back Ground

#### **Section 2 Company Operations**

##### *Upstream*

- A) Sourcing Strategy
- B) Raw Materials
- C) Processing: Dying, Spinning, Weaving , CMT

##### *Downstream*

- A) Design
- B) Own Brand Manufacturing & Foreign Brand Management
- C) Marketing & Distribution

#### **Section 3 Domestic Companies (their plans to internationalize)**

#### **Section 4 International Companies**

- A) GPN route to Internationalization
- B) Buyer: Knowledge Diffusion & Governance
- C) Alternative Modes to Internationalization

#### **Section 5 Upgrading**

- A) Product Upgrading
- B) Process Upgrading
- C) Functional Upgrading
- D) Upgrading to Alternative Services

#### **Section 6 TQM, JIT, & Lean Retailing Practices**

#### **Section 7 Financing**

#### **Section 8 Institutional Factors**

- A) Government Policies
- B) Indian Business Environment
- C) Indian Infrastructure
- D) Locational Factors
- E) Corruption

#### **Section 9 Company Structure**

#### **Section 10 Networks**

- A) Family Ties
- B) Ethnic Ties
- C) Indian Diaspora

**D) Networking**

**Section 11 Other Emerging Issues**

**SECTION 1 BACK GROUND**

**A) Respondents Background**

1. What is your job title; and what responsibilities does this involve?
  
2. What is your background in the garment business?
  - previous education/ or relevant courses
  
  - former work-experience
  
  - previously worked in a local company or international company (related or unrelated to garment business) prior to your current job?
  
3. How and why did you get into the business you are in currently?
  
4. What skills or travel experiences etc. do you have that has helped you in this business and in what way?

**B) Company Background**

1. When was the company started?
2. Who was responsible and involved in the setting-up of the company?
  
3. What is the principle function of your company within the garment industry? i.e. what are its main business operations?

4. What part(s) of the garment/textile supply chain does your company operate in?

5. What is the **main product(s)/service(s)** that your company offers?

<b>Products offered</b>	<b>Services offered</b>

6. What product segment has the company operated in:

- Previously
  
- Wishes to operate in the future

7. Who are your company's **main customers/buyers**?

<b>Domestic / Foreign / Both</b>	<b>Types of buyers (large retailer/branded retailer)</b>	<b>Names of Buyers</b>

8. If it's a domestic buyer- does that buyer sell the product onto a foreign company or foreign market? Please explain the details.

9. Who are the **main competitors** of the company?

<b>Domestic / Foreign / Both</b>	<b>On what grounds are they competitors (product/price/target locations)</b>	<b>Names of Competitors</b>



10. Is your company compliant? If yes, what kinds of investments are required in order to be a compliant manufacturer? Please elaborate. If no please explain why you have opted not to be compliant?
  
11. Is being compliant a major investment for your company and how does this affect your international competitiveness? Please elaborate
  
12. How important is it for your company to be compliant in order to gain access to international customers? Please elaborate.

## **SECTION 2 COMPANY OPERATIONS**

**I would like to know about your manufacturing operations: what the different processes are and how they operate in at different stages.**

*Upstream Activities: Low Value added functions*

### **A) Sourcing strategy**

1. What kind of raw materials/components do you source?
  
  
  
  
  
  
  
  
  
  
2. Who are your main sourcing agents and where are they located?
  
  
  
  
  
  
  
  
  
  
3. What criteria do you use to choose your sourcing agents? And who sets the criteria? (Are the standards set by you or the international buyer; or do international buyers establish from who you will source)?
  
  
  
  
  
  
  
  
  
  
4. What are the different countries you source from? How broad is your sourcing network?- very international?-domestic orientated?

5. What determines your sourcing decisions? E.g. quality, price, cost, availability?

## **B) Raw materials**

1. Do you think India has a fully integrated supply chain, i.e. does it deal with everything from raw materials all the way through to distribution?
2. If so, then does having a 'fully integrated supply chain' in India help your business? E.g. cost and time saving: cheaper because located at home, and also allows you to be time competitive with faster deliveries?
3. What time does it take for orders from suppliers to get to you? Do you consider this fast? If not why is it slower than sourcing from abroad?
4. How much of your raw material is sourced from India, and how much is sourced from abroad?
5. Would you source more from overseas if you could? Why?
6. Could I have a list of where your main inputs are sourced from?
7. Is the quality of raw materials in India competitive?
8. How does the quality of raw materials/components, such as cotton and accessories, affect your international competitiveness?

### **C) Processing: Dying, Spinning, Weaving, a combination & CMT**

1. What processing facilities do you require for your operations? (E.g. dying, spinning, weaving etc.)
  
2. How do you access these operations- do you have in-house facilities or do you out-source?
  
3. Why do you choose to outsource or carry out the operation in-house? (E.g. Quality control reasons? Or time and cost saving reasons? E.g. fabric defects; lack of dying consistency, colour irregularity)
  
4. Do you outsource any of the processes to foreign locations? If so why?
  
5. How does the quality of the various processing functions, affect your international competitiveness?
  
6. Do you have a Cut-Make and Trim operation?
  
7. What operations happen after CMT
  
8. Do you participate in these operations- or do you outsource these? Why?

### ***Downstream Activities: High value added activities***

#### **A) Design**

1. Does your company participate in the designing of garments? If not have you thought about doing this?
2. If not in-house is the design outsourced? Please explain procedure.
3. If in-house, do the designers conceptualise for the buyers or do they work using design templates supplied by the buyer? Please explain how the design process works?
4. How much collaboration is there between your company and the buyer when designing the garment? Please explain with details.
5. Does the buyers' nationality e.g. German or American etc, make a difference to the extent to which they collaborate with helping you in design function?
6. Do you employ foreign designers or local designers? Why?
7. Have you always partaken in the design function or is it a new addition to your operations?
8. If new addition why did you decide to involve your company in design?
9. How important is the design function to your company in differentiating themselves from its competitors and in terms of accessing international markets

or foreign buyers? (e.g. foreign buyers are looking for companies offering a fuller service- or more value for their money)

10. How important has design been in terms of ascending to more value added activities for the company? Has it lead to the increase of export sales? E.g. through allowing the company to compete using higher unit prices for their garment?
11. If exports have increased due to design, by approximately how much have exports increased since adding design functions?
12. How easy is it to upgrade to design? What problems difficulties did you encounter (e.g. governance issues?)
13. India is known for its design capabilities- in what sense is this true?
14. Do high-fashion branded companies such as Gucci, Armani etc. use India as a manufacturing base? If YES or NO- why? (if no why not if India is design competitive?)
15. Do you think it is enough for Indian manufacturers to compete on design over scaling-up operations? (considering China is doing both)

16. Do you feel that by participating in the design function a lot of foreign retailers are uncomfortable with you encroaching on what they may see as their core area of business?

17. Have you ever encountered problems with regards to encroaching on the client's business area? Please explain. (e.g. stopped you from moving into design function)

18. What is the next likely step from design for you?

**B) Own Brand Manufacturing & Brand Management**

1. Have you/or did you have any products that are/were manufactured under your own brand? Please give details.

2. Is the brand sold in the domestic market or international market or both?

3. How do you market and distribute your product?- through what channels?

4. If not sold in international market- why? And do you want to target the foreign market? If so, what will be your plan to gain access to foreign markets? (e.g. go alone, joint venture, acquisition)

5. What does the concept of branding mean to you? (quality, consistency, image)

6. What do you hope to achieve from branding?
7. How do you think Indian brands would be perceived in foreign markets?
8. Do you think a branding can help a company to break into an international market- if yes- how?
9. How popular a route is branding for Indian companies wanting to access international markets?
10. What are the difficulties/risks associated in creating an international brand or even acquiring foreign brands by an Indian company?
11. Have you acquired a foreign brand? IF YES-Please explain why you choose this method and why the particular foreign brand as opposed to others in different countries? (maybe acquiring brands in Italy is cheaper than America)
12. The concept of 'brand management' i.e. managing a brand for an international retailer within India – do you see this as a route to accessing international markets? (E.g. learning how they operate can help you launch your own brand?)
13. Do you manage a brand in India for an international company?
14. If YES, what difficulties are encountered in securing such a 'brand management' contract? What does a company require (skills, resources, experience of

domestic market- note domestic market is in its infancy in terms of branded apparel-traditionally made-to-wear rather than ready-to-wear) to be able to secure such a contract.

### **C) Distribution Channels**

1. Are you involved in the distribution function of the garment business? Please explain: domestic channels and/or foreign channels?
2. Do you have access to distribution channels abroad? Please explain.
3. How did you gain access to them? (E.g. through forming JV abroad, acquisition, contacts etc.)
4. How do you choose your channels? What criteria do you use? Target market or trying to break into certain regions e.g. EU or random or cost of certain countries is cheaper than others?
5. How important are these functions to the growth of your international operations?

### **SECTION 3 DOMESTIC COMPANIES**

1. If your company has NO international operations, are you planning to internationalize in the near future? When?
2. What areas of the business do you hope to internationalize (sourcing, manufacturing, design, branding, distribution)?



3. Why have you chosen this particular area to internationalise?
  
4. Which foreign markets would you target and why?
  
5. How do you intend to gain access to these markets? Exports, set-up-manufacturing site abroad, acquire distribution channels abroad, form joint ventures with foreign company etc.
  
6. What progress have you made to date in terms of your plans to internationalise? (e.g. in discussion with foreign companies or distributors or retailers to stock your product?)

**SECTION 4 INTERNATIONAL COMPANIES**

**A) GPN route to internationalization**

1. Is your company part of global production network (s)? (I.e. part of large foreign retailers' production activities? (if **NO**, go to **section C**)

Foreign Retailer(s)	Product(s) Manufactured

2. How were you able gain access to an international buyer? How did you approach them or did they approach you etc. and why did you choose them?
  
3. If they approached you, what attracted them to you?

4. How important is it to your company's internationalization plans to gain access a global buyer's production network?
5. What are the difficulties in trying to forge links with global production networks- or global buyers? (they have standards you have to meet etc)
6. What would facilitate this process? (e.g. government policy?)
7. Do you have a preference in terms of the types of buyers (e.g. fashion retailer vs. wholesaler retailers) that approach you or you approach? And so you act on that preference...i.e. exclude buyers who do not fit your preference?

**B) Buyer: Knowledge Diffusion & Governance Issues**

1. What kind of relationship do you have with your buyer? Arms length vs. close collaboration?
2. How much input/information exchange/collaboration do you receive from the buyers? What kind of input?
  - Knowledge enhancement
  - Technology improvement
  - Management training
  - Technical skills
  - Achieving standards
  - Constant quality improvements
  - Other
3. Could any of the knowledge or lessons you may have learned from working with international buyers help with your internationalization plans?

4. Does the nationality of the buyer determine the level of knowledge transfer and collaboration between the two companies?
5. Does the *nationality of buyer/customer* impact on your involvement in international operations? (i.e. some buyers give more leeway or autonomy- where as with others may specify every stage of the operation leaving little room for choices or decision required for your company).
6. Does a low level of autonomy prevent your international development prospects?
7. How particular are you in choosing who you work for or work with? E.g. Up-market branded retailers, large retailers who are cost sensitive, high-street fashion designers? Why?
8. Does the *buyer type* (e.g. retailer, fashion house etc.) impact on your firm's manufacturing operations? (e.g. if customer is fashion retailer manufacturing set up will be small, batch, flexible production; if large retailer like Wal-Mart then you have scale-production facilities etc)
9. Does the type of buyer affect the level of autonomy you have when sourcing raw materials or components or carrying out manufacturing operations etc? (e.g. if value chain configurators like Li & Fung then presumably less autonomy)

### **C) Alternative modes of Internationalization**

1. Have you participated in setting up your own international manufacturing operations? (I.e. your own initiative and not part of a GPN, lead by a key foreign retailer)

2. What international operations have you set up and how did you manage to set it up (e.g. green-field- FDI, joint venture, acquisition, merger, strategic alliance). Give details of collaboration (e.g. name, nationality and business of partner)
3. Why did you choose this form of set-up as opposed to others?
4. If you set-up international operations through a joint venture, how did you choose the partner JV company? Based on what criteria?
5. What was the main reason for collaborating with your chosen foreign company?
  - In terms of their nationality having cultural similarities
  - In terms of their home country location
  - In terms of their experience and knowledge
  - In terms of any of their core assets e.g. distribution channels, branding etc
6. What do you hope to gain or have gained from this collaboration?
7. How has it benefited your internationalization strategy?- e.g. made it easier to access a market or makes it faster than setting up yourself, allows you to overcome certain hurdles, helps you access finance, helps you gain a reputation when approaching other international buyers; leverage their assets to your use (asset augmentation/exploitation)?

## **SECTION 5 UPGRADING**

### **A) Product Upgrading**

1. Has your company upgraded its product, i.e. diversified into a new product range or product segment? Give details.
2. If so, why? What are the benefits versus the costs?
3. How does it affect your internationalization strategy?

### **B) Process Upgrading**

1. Has your company invested in new plant equipment or technology? WHAT are these investments and WHY have you decided to invest?
2. How has this benefited your internationalization strategy?

### **C) Functional Upgrading**

1. Has your company changed or increased the range of services/functions it provides to customers e.g. forward integration from manufacturing to design or backward integration?
2. What new services or functions has it started to operate?

3. How has this affected your internationalization or growth prospects?

4. Has the key buyer hindered your plans to upgrade in anyway?- please explain?

**D) Additional Service Provision**

1. Do you provide additional services like Supply Chain Logistics for your customer/buyer?

**SECTION 6 TQM & JIT & Lean Retailing Practices**

1. Do you use manufacturing techniques such as just-in-time and total-quality-management or lean-inventory-systems? Are there any others that you use? Why do you use these?

2. How has this affected your international competitiveness relative to other firms?

3. How have you responded to the practice of 'lean retailing' employed by foreign buyers? If yes how? (*Lean Retailing: requires timeliness, short production batches, frequent orders, fashion items, proximate manufacturing sites; all help the retailer to keep minimum stock*).

4. Has your response resulted in the increase of export sales or access to international markets or global production networks? Please explain with details.

## **SECTION 7 FINANCING**

1. What is your main method of accessing finance? Informal vs. Formal sources.
2. What alternative methods have you used or would like to use? Why have you used these or not as yet used this?
3. How easy is it to access finance (loans) in India compared to other countries?
4. Are there any major differences between the way Indian companies' access finance and how a competitor foreign firm may access finance?

## **SECTION 8 Institutional Factors- Indian Context**

### **A) Government Policies**

1. To date what government policies have helped in expanding your internationalization operations?
2. What government policies are needed to help your internationalization efforts?

### **B) Indian Business Environment- Ease of Doing Business in India**

*How easy is it to carry out business operations in India? Please give your approximates in the following categories (the numbers in brackets are those given by a recent 2007 world bank study):*

- 1. Dealing with licenses**
  - Procedures (20- number)
  - time (270 days)
  - cost (606% of income per capita)
- 2. Employing workers**
  - Difficulty of hiring index (0-100) (33)
  - Rigidity of hours index (0-100) (20)

- Difficulty of firing index (0-100) (70)
- non-wage labour cost (17% of salary)
- firing cost (56 weeks of wages)

### **3. Getting credit**

- credit information index (3)
- legal rights index (5)

### **4. Paying Taxes**

- Payments (number) (59)
- Time (264 hours)
- Total tax rate (81.1 % of profit)

### **5. Trading across borders**

- documents for exports (10 number required)
- time for exports (27 days required)
- cost to export (864 US\$ per container)
- documents for imports (15 required)
- time for imports ( 41 days)
- cost to import (1,244 US\$ per container)
- customs clearance- efficiency

### **6. Enforcing contracts (difficult or getting easier)**

- Procedures (56 number)
- Time (1420 days- 3<sup>rd</sup> highest in S. Asia)
- Cost (35.7% of claim- 2<sup>nd</sup> highest in S. Asia)

### **7. Closing a business**

- time (10 years)
- costs (9% of estate)

### **8. Other?**

## **C) Indian Infrastructure**

1. Power supply- efficiency vs. interruptions
2. Deep water port access, efficiency and infrastructure of ports
3. Aviation/airport access
4. Roads- transportation if factory not located close to port.



5. Water Supply

6. Other?

**D) Locational Factors**

1. Does the location of manufacturing site/factory make a difference to your international competitiveness? E.g. locating in a particular state which has better access to a main port or airport (better infrastructure and better business environment) or tax concessions etc?
2. Has government designated EPZ zones influenced your location? In what way (tax concession, supply of certain facilities).
3. Has your manufacturing-site location choice been influenced by the presence of other clusters of related firms in the area?- how has this helped?

**E) Off-Balance Sheet Transactions: i.e. Bribery**

1. What percentage of your total income is used in off-balance sheet payments or inducements?
2. How does it impact on your international competitiveness or in terms of accessing international markets?

**SECTION 9 Company Structure**

1. What kind of organisational structure does your company have? –please explain how it operates.

<b>Family Business</b>	<b>Part of Business House</b>	<b>Privately Owned</b>	<b>Publicly Listed Company</b>
	-diversified?		
	-what are the other businesses within the Business group		
	-what is the name of the group		

If company is **NOT** part of a **BUSINESS HOUSE** go to **question 9** of this section

2. If company is part of a business house please explain the structure e.g. how many affiliated companies and in what industries they operate- and how the organisation works.
  
3. Has diversification into different industries through various affiliates helped your company- especially with regards to its internationalization activities?
  
4. What attributes/characteristics of your company structure have had a major impact on your international activities? And how have your activities been affected?

*Especially with regard to:*

Pooling of <b>management time and expertise</b> between affiliates?	
<b>Pooling</b> of any other type of <b>resources</b> between affiliates? <i>Please specify</i>	
Sharing of <b>distribution channels</b> for varied or related products/services between affiliates?	
<b>Cost sharing practices</b> between affiliated firms?	
Sharing of <b>foreign</b>	

<b>Market knowledge?</b>	
<b>Access to finance?</b>	
Practice of <b>cross holdings</b> - benefits and problems?	
<b>International corporate governance</b> practices?	
Other factors?	

5. Is your firm part of a cross-holding/investment with any other business group?

6. Does this help with access to bank loans (increases collateral due to combined assets) and has this had an impact on your plans for international activity related investments?

7. Overall what are the benefits of operating under a business house?

8. What are the disadvantages of being part of a business house?

**If your company is NOT part of a business house .....**

9. Please describe the structure of your company and how it operates.
  
10. Explain why this particular company structure was chosen?
  
11. What are the benefits of operating under such a structure for your international activities? (e.g. more transparent than a business house structure)
  
12. What are the problems of operating under such a structure for your international activities? (does not have the benefits associated with business house)
  
13. How has the structure of your company helped or hindered efforts to access international markets?

*Especially in terms of:*

<b>Access to resources</b>	
<b>Access to finance</b>	
<b>Cost sharing practices between affiliated firms</b>	
<b>Sharing of resources e.g. management, distribution channels for products etc.</b>	
<b>Adherence to transparency of operations</b>	
<b>International corporate governance</b>	

<b>practices</b>	
<b>Other?</b>	

## **SECTION 10 Role of Networks in Internationalization**

### **A) Family Ties**

1. Have you or do you use family ties in accessing international markets or international clients for your business?
  
2. If so, how does it work? In what way have family ties been beneficial in helping you to access international markets or set up international business?
  
3. To what extent do these ties help (i.e. just initial contact or does the family play a major participatory role in ongoing outcomes?)

### **B) Ethnic Ties**

1. Which part of India are you originally from? Which state in India?
  
2. Is there a tradition of using such regional ties for business purposes?
  
3. Have you used such regional ties to help you internationalize your business operations or access markets or helped others from your region?
  
4. In what way have they/you helped? E.g. financial, provision of foreign market information, finding suitable, culturally similar trade partners.

### **C) Indian Diaspora**

1. Has the presence of (non-resident Indians) NRI's in your target market (abroad) helped in any way with your internationalization activities? E.g. accessing foreign market information or making connections with foreign buyers through referrals?

2. Have Indian diaspora, settled in foreign markets, themselves been a source of business for you? Reverse internationalization? Please Explain.

#### **D) Networking**

1. How important is networking, both local and international, to the growth of your internationalization activities?
2. In what way have you enabled to form a network that has helped your international activities? (member of industry association, family, friends, member of club etc)
3. If networking is important, then in what way are you dependant on them for your international activities? (e.g. source of information on foreign markets or source of making foreign contacts?- has it made it easier to entry foreign markets?)
4. How dense/intricate is your network? How many countries, regions, companies, people, associations etc.
5. Have you accessed countries in which you have no networks? If so, how?

#### **SECTION 11 OTHER RELEVANT ISSUES**

**How has your company's internationalization strategy been affected by the following emerging trends:**

- How has the appreciation in the rupee affected your international operations? And how have you responded to the appreciation of the rupee?

- Why do Indian apparel manufactures not make use of trade agreements such as AGOA, etc.
  
- **Consolidation of retailers'** sourcing and manufacturing networks- so they are looking for firms with more value added services- those firms who offer a full package; how does this affect your companies operations?
- **MFA expires** for China in 2008: threat or challenge to you- what is your response?
  
- **Supply Chain Cities** and the concept of '**one-stop-shop.**' E.g. Brandix, Luen Thai.
  
- The growth and rise of the **Indian apparel retail Market** how does this affect your current international operations?
  
- **Li & Fung** type business operations? **Supply chain configurators** - Is this a premature idea for Indian industry?

**\*\*ANY OTHER ISSUES YOU WOULD LIKE TO HIGHLIGHT THAT HAS AFFECTED YOUR INTERNATIONAL ACTIVITIES?\***

**THANK YOU**

## Appendix B Interview Schedule (b)

### Questionnaire

#### Section A: Profile of Company

1. Company Name:
2. Web-site address:
3. Head-Quarters Address:
4. What is the main business activity(s) of your company in India? (*can tick more than one*)
  - Production/manufacturing
  - Distribution/ sales & Marketing
  - Design
  - Research & development
  - Financial services
  - Other services
  - Head quarter function
  - Other (*please specify*).....
5. Is your main output a (*please tick one*):
  - Service
  - Finished product
  - Semi-finished product

Please indicate the % sold to:

  - Domestic Companies.....%
  - Foreign investors/ parent company (or its subsidiaries).....%
  - Other Companies abroad.....%
6. What types of apparel manufacturing are you involved in: (*can tick more than one*)
  - Manufacture of textiles (ISIC code: D17)
  - Spinning, weaving & finishing of textiles (D171)
  - Preparation & Spinning of textile fibres; Weaving of textiles (D1711)



- Finishing of textiles of textiles (D1712)
- Manufacture of wearing apparel except fur (D181)

7. Current Ownership Structure:

	Approximate % Ownership	
Local Partner		
Foreign Partner		
Private Equity (fund or silent partner)		Local or foreign?
Other (please Specify).....		
TOTAL	100%	

8. Year of incorporation (company started in India):.....

9. Number of factories and location:

In India		Abroad	
State within India	Number of factories	Country	Number of factories

10. Estimated new investment (in addition to depreciation replacement) or disinvestment made by your company during the last 3 years: *(please specify currency and, if disinvestment please put figure in brackets e.g. [...])*.....

11. Anticipated new investment (in addition to depreciation replacement) or disinvestment you think your company may make over the next three years: *(please specify currency and, if expected decrease please put figure in brackets e.g. [...])* .....

**For background purposes only, to compare your firm to others in my sample:**

12. The value of your firm's total sales in the last year: ..... *(please specify currency)*

13. Last year there was a:

- Growth in sales of .....%

- Decrease in sales of .....%

14. Anticipated increase or decrease in annual sales over the next 3 years (if expected decrease, please put figure in brackets [...]):

2007.....%  
2008.....%  
2009.....%

15. Book value of your firm's total assets (land, building, equipment, working capital, etc.): ..... *(please specify currency)*

**Section B: Profile of Foreign investments**

Have you *(can tick and fill more than one)*:

- **Established a new operation abroad (green-field/FDI):**

-Which Country(s).....

-What is the main operation.....

-What was the size of investment.....

-What is the main purpose of investment.....

- **Acquired a foreign company or foreign assets abroad:**

-Which Country(s).....

-What assets did you seek to acquire.....

-What was the size of investment.....

-What is the main purpose of acquiring this investment.....

- **Participated in a Joint venture abroad:**

-Who is the partner.....

-What Nationality.....

-Why did you choose this particular firm to be a partner.....

-What is the ratio of joint venture?.....

-What is the main purpose of the JV.....

- o **Participated in a Joint venture in India with a Foreign Company who exports your products abroad?**

-Who is the partner.....

-What Nationality.....

-Why did you choose this particular firm to be a partner.....

-What is the ratio of joint venture?.....

-What is the main purpose of the JV.....

**Section C: Exporters**

1. What % of total sales last year were exports? .....
2. Export start date .....
3. Please list the countries to whom you export to and what percentage of your exports goes to each country:

Country you export to:	Percentage of Exports:
Total	100%

4. Do you export:
  - o Directly,
  - o Through an agent/distributor, export house or intermediary,
  - o Through parent company (or foreign JV partner) channels
  - o Through a Key buyer?
5. What is the estimated annual increase or decrease in export revenues over the **last four** years? (*if decrease, please put figure in brackets [...]*):

2003 .....%  
 2004 .....%  
 2005 .....%  
 2006 .....%

6. What is the anticipated annual increase or decrease in export revenues over the **next three** years? (*if expected decrease, please put figure in brackets [...]*):

2007 .....%  
 2008 .....%  
 2009 .....%

**Section D: Work Force Profile**

1. Total number of employees:..... % permanent:.....  
 % Temporary:.....

2. Of the total employed, what percent are:

Unskilled labour: .....%  
 Skilled Labour: .....%  
 Administrative, management, technical .....%  
 Other (please specify)..........%  
 100%

3. Of the total employed:

	Total Number	Of which locally recruited	Of which need a work permit
How many are managers			
How many are engineers or technicians			
How many are university graduates			

4. What is the total amount of the annual wages (total wage bill of last fiscal year)?  
 .....(please specify currency)

**THANK YOU**



## **Appendix C Example Case Company Transcripts**

### **Example 1**

#### **Case Company MI**

#### **Managing Director/ Owner**

##### ***Networking***

There are different ways of networking, firstly we have got agents who we have been linked to who we have approached and they have become our agent like Italy we have an agent, Finland we have an agent, we had an agent in France for a while apart from that there are different exhibitions we participate in related to our business where we have around the world and different buyer seller meets or major exhibitions for clothing and textiles where we make our contacts, apart from that there are buying agents that exist in India itself. They are like representative offices of all the companies abroad in Europe or in US, so they are always looking for good sourcing, good companies to work with so we [go] through them...and what has really helped me is my relationships with people most of the time if your working in the French market you work with 'x' company with a 'x' buyer that 'x' buyer leaves that company and joins 'y' company so he also brings you that business if your relationship and your working with him has been very nice with him, he doesn't forget you when he moves on because if he is a shirt-buyer in 'x' then he would be a shirt buyer in 'y' or he would know shirt buyer in 'y' and introduce me because he has had a good experience with me so its also word of mouth which has really helped me a lot.

What is interesting to note is the varying approaches used by Indian manufacturing firms and the degree of success that they have had as well as the level of positive predictions on the outlook for future prospects for the company's in this study when accessing international markets. There are various contributing factors that may be responsible for the result: those that are family run and those that semi-professionally run (although still family run); further more those that have relied on family are much more restricted and feeling the harsher more competitive conditions of the post quota era more of a pinch that those that have taken a more diverse networking route in attaining customers...does size of company make a difference (smaller firms have to rely on contacts established or not so big agents as their capabilities are limited, they may not have compliant factories?)

##### ***Buyer type/preference***

[Li & Fung]...these are buying agents, of course they are very large, and they are spread across the world they have a lot of offices everywhere where there is production of textiles and garments but its not always easy to work with them because they have a wide basket of vendors and its almost like a tender system when they have an order, so

they just show those same sheets or pass on that same enquiry to seven other people and then whoever is the lowest bidder and is the most comfortable in terms of working or something uh...mostly its very price centric...and ugh...basically as I told you the kind of products we do price is not so important for us, creativity, quantity is more emphasis with the business we do...we try and target more high end product markets rather than worrying about price sensitivity...somewhere down the line in your production, when you have large operations you have got to have those bigger runs as well because only medium or low priced items can give you bigger quantities to run your production, high priced items can give you bigger quantities to run your production, high price is very less buying so numbers are not that big ...but now that we are growing as an organisation we are trying to hit at upper end chain stores which still pay better price than absolutely low end ...per unit price per garment, rather than bulk buying, lower end is like Wal-Mart and targets and all those kind of people.

***Buyer preference, why Wal-Mart is not their target customer***

***Knowledge enhancement through working with high end buyers***

“Well Wal-Mart defiantly has its own quality norms and demands so its not so easy so the nature of orders in Wal-Mart is huge numbers are large and of course its economies of scale so the prices are very, very sharp where there is too much transparency in the costing, you have no room to make a mistake in those kind of orders whereby in the higher end customers quality is the 1<sup>st</sup> priority followed with timely delivery, price is the last criteria not that you can be too expensive but of course you can demand a decent premium and working with higher end brands brings you a lot of respect and a lot of exposure to the real side of fashion and through which and through the knowledge you can really generate a lot of other business in other areas medium end or low end because they give you trends and they give you ideas.

MI's strategy is defiantly one of avoiding falling into a business model based on price and cost...seems a good strategy for companies to follow if they want to cater to a western market very conscious of compliance, as well as making use of the inherent competitive advantages that are available in Indian economy, in terms of talented designers and artesian.

***Design (participate in design)***

“Absolutely we are a one stop shop, we don't miss anything in the textile chain, except spinning the yarn; we dye our own yarn, we weave our own fabric, we dye the fabric, and process it and then we also manufacture garments, so we have a completely vertically integrated organisation, and design is our forte, that's where we really focus on , I mean we have a team of 25 designers over fabric and garment business men's-wear, women's-wear, textiles they constantly churning out new ideas.

“[design] has helped us a lot because in the end we have gained a lot of respect, we are working with the best of labels in the world...because one thing leads to another if we work with a Hugo boss, Armani wants to work, or want to give it a thought or Dolce & Cabaña...it gives defiantly much more respect and credibility and it gives you better

realisation for all your efforts...its not just about working hard but also about achieving...and bringing in more revenue.”

### ***Designing for Versace and Armani***

“No not really [they don't design for [Armani and Versace]...because most of these big brands have their own designs, but they surly take a lot of inspiration from us. Before they start making anything they visit us, see our collections, they get ideas from there as to what we are maybe capable of doing, they like some fabrics they pick out from our collections, maybe they re-colour them maybe they re-adjust the styles(?) sometimes they even pick up exactly what we produce, so its all mixed.

### ***Design conceptualisation***

“Absolutely there is a lot of research that goes in our designers are firstly qualified they are all from NIFT, that is national institute of fashion technology, and its affiliated with ...FIT New York and they are working very closely with fashion they have been through the grind for 4 years of their studies they know what pattern making is all about they know what a form is all about they know what...how to predict trends and they have been qualified to learn the technical part of the whole business as well as we support ourselves with very expensive websites like WGSN, where we subscribe for a year and we pay a fortune ...on those web-sites we get the latest trends of what's going on, what was yesterday in Milan its in the news ...so we are very much in touch with what's going on and then we have our own office in Paris where our designers keep travelling very often...that office is basically a sales office since most of our business

### ***Upgrading to design- difficulties/Importance***

“we faced a lot of problems when we started, It all started with a...small change in the way we were doing business in a conventional way...making basic products, not experimenting too much...one fine day we got a client from France who made like 50 styles with us which is absolutely mind blowing, very different from what we had been doing...and when those garments went on the rack in our show room we started getting reactions from whoever visited us on those garments and that's when we realised that wow...there is so much potential doing something different only then you can win appreciation win customers and get into the streamline of things you know in whatever you want to do as a fashion driven company.”

“that way we have a full fledged design centre where we employ almost 250 people, there are experts in different areas of garment manufacturing, right from...we have our own screen printing, we have our own embroidery, computerized embroidery machines, we have our own hand embroidery people who do hand work, we have our own washing and over dying facilities we have specialised machines to do specialized stitching operations, then we have a fabric library, where designers can just work on different fabrics and different colours and make creations so its like a whole ...like a school over there with everything in there and its based in Bombay.”

### ***Encroaching on buyer territory with design***



“one thing is for sure , that of course in this business there is a little bit of insecurity that people have, but I would structure it in a different way it would be a totally different entity which has nothing to do...of course it would belong o the same group [MI] but the people involved, the design involved elements involved will be different so it wont have any clash of interests...so far its not been a problem...not really.”

“no we have customer specific IPRs, we block that design for that specific customer so we are very careful”

### ***Future plans***

“obviously to push our own label because we have spent enough time in the business to learn lot many things, our product basket is...we started with shirts not we are doing women’s, now we are doing bottoms, now we are doing tops everything so we are almost...we are covering a major part of the garment business so eventually we would like to have our own label....

No it will be for the international market including India...[the designs] will be the same, its difficult to follow the logistics; we will try to universally package it, universally acceptable

...[plans] are all in the pipe line, thought process is on and it will be a lot of ideas put together a lot of people put together...and its not yet started...its just a thought and it’s a definitive thought but we have started working on it...it will take a couple of years, its not gonna be immediate.

...since we already have a presence in Europe and we understand the market well we’ll start with Europe and I’m planning to start my own office in New York by this year, so maybe US...India of course because we are already here....(will India be the first country?)...well ..no we had a brand way back but then that was at a very early stage we stopped...before because maybe we were too ahead of times you know...it was called ‘High Tide.’”

Interesting to note that even they started of as a conservative company and it took one adventurous order from a buyer and the follow up positive reactions towards that order to convince them that being creative was the way forward...something maybe many Indian manufacturers need to be convinced of...? Although at the same time companies like Mr Mashru’s have tried this route out – but rather unsuccessfully?...why?

### ***Attracting and retaining Customers- providing extra services:***

“...we have our own office in Paris where our designers keep travelling very often...that office is basically a sales office since most of our business concentrated in Europe, we work in all the European countries we made that office to service our customers to be closer to fashion and be to closer to them because we work with fast track fashion customers who have almost close to 12 seasons a year ever week...every month they have new merchandise in the shop, so they need to see something constantly new; for them to travel to India is not so easy so to service them we are in the middle of all of

them, Paris being one of the fashion capitals and anywhere from Europe its on hour or two hour flight if they have to come from Spain and Italy or anywhere so it helps.”

“[design] has helped us a lot because in the end we have gained a lot of respect, we are working with the best of labels in the world...because one thing leads to another if we work with a Hugo Boss, Armani wants to work, or want to give it a thought or Dolce & Gabbana...it gives defiantly much more respect and credibility and it gives you better realisation for all your efforts...its not just about working hard but also about achieving...and bringing in more revenue.”

“Yes, definitely, definitely [it has helped increase exports]...when you meet a new client and you just give your customer profile that you worked for Armani’s and the D&G’s its already open for you...the doors are open so that makes life much more simpler for you because people...already people put you in a certain bracket when they know you work with them [Armani and D&G etc] so they don’t have too many doubts in their mind working with you.”

#### ***Buyer-supplier relationship***

“well there is a lot of interaction because every buyer comes to visit us before they finalise the seasons collection apart from that we also visit them and then we discuss and present them our collection they have their own views they have some specific requirements then our designers understand what they want we make custom made collections for our customers also because over the years we have understood their needs and tastes so we also have custom made packages for specific clients in our company say we have a surf wear customer we create a whole surf-wear collection with fabrics with elements with styling and we present it to them, specifically for them

#### ***Collaboration (employee foreign designers)***

-well not as of now but we already have foreign designers coming and working with us from various companies that we work with and that way you can demand a certain premium and make real use of your resources and its all about doing things differently”

#### ***Integrated set-up***

Of course the whole idea of us going backwards and forwards integration is to help our own selves in our business...because to make a garment you need fabric...so we make the fabric ...to make the fabric you need the yarn...so we dye our own yarn...no its not...no imports are still not as relaxed and affordable in India the duties are very high, they don’t want to promote to much of imports of materials that are readily produced in abundance in India because then the Indian industry would die so they are kind of protecting the Indian Industry...but you can import to export because then you don’t pay duty, you can import fabric and convert them into garments and re-export but then you don’t get the benefits because you are saving on the customs duty so the government does not give you the additional benefits that they would give you to export, so even if

you export you don't enjoy the benefits, so its limited benefits...as of now, maybe if the policy changes....

### ***Finance***

"If you are a sound company with a sound balance sheet finance is not an issue"

### ***Access to Resources***

"being a larger company we can ask for better prices and you can dictate terms also as a supplier you don't have to be making customers abroad all the time because even you know that they need you it helps your negotiation power becomes better."

### ***Ease of doing business in India***

"to begin with its still the infrastructure...growth is terrific but the infrastructure is still not in pace...there are no areas demarked ...there are no...I mean SEZs are in the pipeline but nothing has come up...pollution and global warming is a huge concern and Indian industry gas to have...Indian government needs to make that infrastructure where your waste water has been recycled or treated...or they need to make centralised treatment plants there is a lot to be done and there is tremendous potential I mean we are growing at a rate of 9 to 8 percent GDP for the last three years and its been consistent without sound infrastructure I can imagine with sound infrastructure I don't know where we would reach

### ***Political Fabric of India***

"it does affect [international operations] because sometimes in a country like India when you lack certain facilities it does make a buyer think twice but all in all after China its in manufacturing now because the population that we have, the younger population that we have in our country which is almost 65% of the total population the reason we are growing and basically there will not be enough choice for people in the West but to come to India, China or Asia because its still the world's factories and the cost of labour is still far more cheaper this sides despite all the problems...of course for e.g. Hotels...today you don't get hotels when a customer wants to visit you he does not have a room to sleep, that's the situation in all the metros in the country today, supply is less and demand is more ...but I think its all happening but it should happen fast that the only ...the problem is firstly it's a democracy and there is so many political parties, there are no two parties like everywhere else so parliament is always hung, there is always some kind of coalition government running the show and there is so much insecurity in the political circles if they'll survive the term...so they all want to make quick bucks, if reforms happens with their pockets being full it does not really make that much of a difference its going to happen corruption is everywhere in the world at different levels, ok India maybe a little more, Pakistan maybe worse, but the fact is reforms should happen there is no planning we still lack civic planning in the country that's a concept, independently organizations are growing like fire they have the vision, they have the ability, they have the capacity but if it is not supported by the government in the form of infrastructure, roads, transport everything it is going to be a big concern.

### ***Business Environment***

“things are getting defiantly better most of the companies are following norms, like we as a company are ISO, its not a big deal everybody, I mean most of the companies follow this system, we also have SA 8000- socially accounting certification, this all helps our international access a 100%, we look after our own employees we give the free meals, we have crèche facilities we have canteens we have a lot of facilities we provide that we are providing ...recreation for our people for our campus’ to try and give a better environment so that you know retaineeship otherwise you know there are enough choices, you gotta give them a good package, not only a good salary but the whole works, the environment, hey basically need to be looked after for retention purposes. We have factories all over in Bangalor, in Tarapur in Mumbai.

### ***Location factors linked to labour availability***

“you have to think geographically in terms of locating yourself, because there has to be ...supply of labour that is first and foremost because our industry is highly labour intensive you can put up the best factory in the middle of the mountain but if there is nobody to work in it it makes no sense, and especially our job requires a lot of skilled labour which is not so easy to get we also believe a lot in training in our organisation we got our ...everybody who joins the company has to go through that initial training period of one week to one month depending on the job and has to go through certain tests, only if he is fit to join we include that person because everybody has to think on the same wavelength or the same...level it cannot be different...we are really developing and cultivating a lot of people because lets face it there is a shortage of good people for this particular industry in India.

Interesting to note that companies and report has highlighted the lack of good workforce (MI, TWW, Mr Mashru's brother who is in the business), skilled workforce, as a result the response of many companies, at least according to Mr mashru those larger companies who can afford to, are setting up their own training centers and facilities to cater to their needs in terms of developing manpower skills. However on the flip side you have the government who have on a lower level put up ATDC centers and on a more fashion and managerial level put up NIFT to fill this gap in terms of low availability of labour, however consultancy reports indicate that the ATDC and its core subjects do not offer the kind of skill sets that the industry requires and as a consequences is not in alignment with the needs of the industry...alternatively professor Returi’s observation is that many of the students during a recent recruitment day at NIFT, where industry specific companies both export orientated as well as domestic orientated companies, visited their campus to meet and engage and sign up students with their companies found that students tended towards preferring to work with the domestic set-ups (normally large malls and branded local labels) who mostly ran a more professional based operation and the prospects for career upgrading within the company was more so than within export units where more likely than not the company was closely managed and run by family, where many of the top job and key positions also held by family.

### ***SEZ***

“we are not stopping our plans of growth, we are not waiting for governments to announce something and then plan things but of course we do have plans to avail the benefits so wherever we have the opportunity the government has allotted land for industrial purpose we have booked our land for future prospects but so far things have not really taken off, it will all happen in the next couple of years I think.”

### ***Bribery***

“Not really we don’t believe in that we are a very clean company... but its getting better from what it was it still exists but yah but its not affect its way of life.

### ***Competitors/politics***

International- “china is, Bangladesh is really coming up so is Pakistan, Vietnam is coming up, Cambodia is coming up...do I consider them threats...well from an industry perspective to a great extent yes because they are trying to take a share also of the garment business in the world in the end its survival of the fittest, but in other terms we still have a lot of edge in many areas like we have better quality cotton then any of them...we have got our whole industry which is really developing and still on its development stage a lot of it has already developed its one of the largest employers in the country, the textile and garment industry put together, I mean you have to keep upgrading yourself, you have gotta keep yourself...I mean if you ask me the question about threat...we do have our own product

### **Example 2**

#### **Case Company SD** **Marketing Manager**

I think we were a men’s wear brand before, initially when we started, and then we expanded to women’s wear.

On the whole we are looking at venturing into lingerie but it’s at a very nascent stage.

#### ***Main buyers:***

Both Domestic and foreign: Indian companies and we do export. We export under the brand name of sweet dreams only to East Africa and the UAE.

#### ***Type of buyers export to:***

#### ***Domestic Buyers:***

We look at corporate we have a lot for departmental store chains, so..we are retailing at shoppers stop, at lifestyle, pyramids and straps and in the same format we also have central, so through these chain of stores...plus also...in India there are a lot of multi-

brand outlets, and we have a chain of around 700 odd retailer, 700+,...through who we channel our goods.

If the sweet dreams goods go abroad it has to go through direct contact it wouldn't go through one of our retailers.

### ***Competitors***

Domestic market: Lounge wear is a category like I told you we are the market leaders that because we have a very good network, ...network in terms of 700 retailers...and product wise also we've always given them...we started the category so we have the market since the beginning...there are a lot of competitors, in the sense they are small time competitors...you know...nobody has reached our scale...both Indian and foreign brands ...but nobody in that big a scale...but all these brands do have the lounge wear categories like La Senza will have it and Marks and Spencers will have it, but I don't know to what extent I can call them our competitors...yah I mean they have a lot of other things I mean their whole store is a combination of a lot of things.

### ***Sourcing***

Raw materials and components: fabrics is our main source beyond that ...accessories...no we directly source the fabrics, [not the yarn].

### ***Criteria to choose sourcing agents***

We get everything from India only, that is very limited fabric from abroad

Dyeing spinning weaving we don't do it, fabric everything is outsourced, we get it done, but we do the CMT operation, packaging is also done in house

### ***Design***

Yes.

Everything is conceptualised here and from there it moves on, we move onto the designer graphics and stuff and then it goes to the factories from here. We have in-house designers, we higher designers from India...Niftians are branded that way ...Nift is a good institute so we know quality students get out of it.

### ***When we export abroad its under our own brand...what channel we ....?***

We have our own brand that we are taking abroad, we don't design for a foreign buyer or buyers who want to change our styles.

We employ local designers because we are catering to the Indian markets so our designers would know better what works here,... though we are catering to the Indian market, but like I told you lounge wear is a category that was not even existing back when we started...so the inspiration has defiantly been international because that's where the category was existent and that's where we've adopted the idea from them, so

in that sense ...it's a very safe category...in terms of, it would work here also it would work abroad also, the same kind of products would easily go abroad also in terms of fashion and styling.

We have always designed our own garments,...it's a growing company so once you start of in a particular manner you obviously ...ten years down the line you will not be the same...initially you would have very limited people working for you, very limited... The you extend, extend, extend, then you have more people working for you and it gets streamer line...whatever is required is always...I mean like if our graphics people... say something is missing that is always invested into, if that is required that is defiantly something that we look into.

### ***Differentiating yourself from you Competitors***

We do a lot of research before we actually come up with our designs, so we know what's the consumer needs and expects from us and only after we're sure then we conceptualise it and that's when the design process starts...

You have to observe what they are expecting what they require according to the trends in the market,...when your out in the market we would know what is selling most we interact a lot with our retailers because they're the ones directly in touch with the customers, for us we give it to the retailer and the retailer takes it head to the consumer so we interview a lot of our retailers we are constantly in touch with them so we know this is what is expected this is what's expected this season, these colours would work...things like that.

### ***International markets***

Value added activities enhance sales or realisation per piece of garment

It has defiantly happened because in terms of designing now that we have an entire range and we have *specific* brands for different moods so we have to put in a lot of research we have to spend a lot of time in conceptualising the entire...and you know get a theme for the entire collection, all that has to be done so now that we put in so much effort into it we expect it in terms of return.

### ***How easy is it to upgrade to design***

You have to learn how to learn on the job, I mean we've had so much experience in this field so we know what the consumer is finally is happy with, so we develop our products to keep the consumers happy, so I mean it has to start that way you know initially it has to be trial error, trial error trial, error then you upgrade yourself, upgrade yourself and then you reach a certain level where the consumer is always happy with all your products

### ***Expenses of running design Studio***

### ***India's design capabilities***

Indian culture, they have done this for years...and now that the world knows about it ...Indianized prints that we have is very interesting, the cuts that we have sari's and suits all that is very interesting for the foreign markets

***Next likely step from design***

Next likely step... I mean we are always upgrading ourselves in terms of the market – like I told you we put in a lot of research to be in sync with the market.

***Own Brand Management/manufacture***

Yes, sold in both markets

Through retail channels market and distribute the product (bill boards, magazines)

We have our own stores, located in Ahemdabad and Nashik not in Bombay; we did have a store in Bombay but it didn't, I mean it ...we...didn't really, we didn't rally in terms of it was not giving us those returns in Bombay and if we have to expand in terms of being available in every where in India which we are, but in terms of SD Lounges in terms of our own retail formats.

So it's mainly through these department stores that we have been expanding.

Its running really well in Ahemdabad and Nasik, but only thing was our rentals and everything was not matching in terms of the returns we were getting.

To be able to sustain in a metro with the costing involve its very difficult...as of now the two cities I told you and we also have it in Pune...but again that's in terms of a departmental store, it's and SD lounge, its our own area in I a huge store.

International Market- why UAE and E-Africa- why not somewhere else?

***Concept of Branding to your company***

To start of like I told you lounge wear as a category is not really known in India, it has to reach a stage where people accept it, people are willing to spend money on it alright...so for it to be accepted you need to brand your product, we have a particular image going out with each of our brands products, and that is very important to be transferred to the consumer because till the fact they do not have knowledge of it they will not buy it, so branding does obviously affect the goods that we manufacture because if there is no branding...to reach a higher level you need to brand you product.

To expand you business you need the branding to happen, because otherwise you would have a network but branding really helps with the consumer because if they know your brand they would ask for your product, repeat customer-ship, brand loyalty all that.



Differentiate your product: what does Sweet dreams say to a consumer?  
The entire package would be would have...your quality of the material would be good  
you design would be very appealing to you, even small, small details would be taken  
care of...maybe another brand would not be able to reach that level at this point and  
time.

*Your brand perceived in foreign markets?*

*Branding can help break into international market?*

*What are the difficulties in creating an international brand?*

SD lounge is the retail format, otherwise we send out the product to the retailers

Selling product abroad we, as of now go through departmental stores, or particular retail  
outfits

*How did you gain access to international markets?*

Not part of a GPN for a lead firm- they are an own brand company  
No international manufacturing operations

*Upgrading products*

Diversified into new product areas  
See if you are doing one category you have to diversify to..., I mean it's the next step  
for your company, you have to move on to another product once you stabilize yourself  
in one product...because then you have a better reach and once you are already in the  
market you know what the market require then you move onto another product very  
easily because you had your set-up base, you are meeting the requirement for more  
consumers.

*International strategy*

*New Investments*

We obviously keep expanding our manufacturing base also...so...

*Changed or increased range of services it provides?*

*Venturing into design studios and collaborated with foreign company in designing?*

*Do you use TQM or JIT?*

*Finance- main method of access*

*Government policies in international operations*

## ***Dealing with licences***

Location Factors

## ***Company Structures***

### ***Growth and rise of the Indian retail market***

In a big way because now since it is in retail format and apparel retail is growing people are ready to spend more and people are actually looking out for specific applications of their clothes and that is the reason because it is moving the sector that is the reason we have been able to come up with more ideas, more applications of our product.

### ***International market taking a back seat- exports taking a back seat?***

We started of with the Indian market so ...our next step would be internationalization, but I don't know t what extent we are looking at it right now.

Production/manufacturing, branding, designing, marketing and distribution

Main output is finished product

Type of apparel manufacturing: wearing apparel...not lingerie

Year of incorporated 1997

Number of factories in India: Kolkata, Tiripur and Bhavnagar but these are not all owned by us but they are completely dedicated to our own production.

Total number of employees...we have two companies in the grace group companies, they are completely related, but they handle different sections of the brand.

## **CEO of Company**

### ***Background***

-owner of the business

-I studied in a small town...called Bhavnagar, eventually we realised that it has got a lot of geographical boundaries, the business I was into the computer business, because the technology was going net-based and there was very little infrastructure available in those days in Bhavnagar so eventually I wanted to get into a business which would help me continue staying in Bhavnagar and also cross the geographical boundaries, and not relate myself with the economical development happening in Bhavanagar, (which was quite slow maybe?)...it's still continues to be.

R. he is my younger brother we started this business together first six or 7 years his job was to manufacture and my job was to sell and then both of us developed our own skills sets and we are handling quite a large business now.

***How did you decide to get into lounge wear?***

We started as a nightwear company, its men's pyjama's basically, and the idea also come from a very unrelated kind of an environment, in my schooling and college days I had a room partner and you know are very competitive in those days in 16's, and 15's and 17's you want to score high on almost every aspect of life and fortunately I was blessed with everything my own vehicle, and boots and everything but my room partner he had a sister based in US and she had gifted him some 3-4 nice pyjama's, pin stripped very beautiful looking, I still remember, very smart pyjamas and he knew I didn't possess any, so everyday almost in the evening...his day clothes will not be ironed but his pyjamas will be ironed and he will be so comfortable sitting on his bed and studying the book and you know I always envied he is having a better lifestyle in hostel so that was in my sub-conscious mind I never thought of making pyjamas those days because my focus was computers , and when the opportunity came and we had to decide we had to do something in garments we opted for pyjamas...[laugh] very tastefully made pyjamas.

In 1998 when we had to decide as to which way we are going computer or garments I had to select any one of the businesses because focus was required...then I finally took a call we move onto garments, computers took a back seat, then we explored all the possibilities as to how do we make these, we were making beautiful pyjamas but how do we grow our business pyjamas had a cap it won't sell with everybody, it was so tasteful, so then we decided lets go the family route lets go to something which people would extend in terms of their lifestyle, basically pyjamas are for comfort and relaxed so the modern lifestyle which was becoming nuclear families a lot of stressful environments at work and these things kept on inspiring us to launch products after products to get into niche.

***Main business***

We do outsource the manufacturing we have some units which are owned by us which gives us an advantage of knowing the product in and out and for our peak season requirements we do outsource. Garments is a seasonal business as such and there are peak season requirements, because retailing operates that way it's a backend of retailing any brand is a back end of retailing and retail business has got its own peaks and ebbs, you know when you have you festive seasons and you have your high summers when people go for vacations when they buy a lot so these are the periods when demand is high and we need to gear up fro peak season requirements and these times we outsource.

***Article: Investing in warehousing and design studios***

Correct.

I think this was 2 years back, since I come from the background of computers and consultancy and software so I have always felt that outsourcing needs from emerging economies is going to be a big, big opportunity in coming times. It's an aspiration it's a desire that some day sitting in India with the kind of talent which is up coming here we should be able to offer designing capabilities outsourcing of designs to advance countries.

***Design out sourcing business?***

There are two aspects of it one is the talent and second is the manpower, when we talk talent you know the group which will be working on a design will/would have acquired a certain kinds of talents to generate fashion or forecast and things like that and the manpower part in India is always going to be much cheaper for the next 20 years time at least as compared to the rest of the world so if you have a good blend of talent and man power we should be the right destination for offering these kind of services. In fact we have also done a turnkey assignment for one of our retail partner's, this was when they wanted to launch their t-shirt brand so right from doing the mood boards, deciding on what should be the pricing, what should be the product, what should be the look, what should be the colours, what should be the fixtures at which it will retail, the entire assignment was done by us and we implemented it successfully and now it is a very large in-house label now. The retailer is a Indian retailer with a lot of global views, I am not sure of their global aspirations as a retailer but in India they are very big.

So we have tried this concept of outsourcing design and the whole turnkey project for an Indian retailer, when I have a right customer and when I have a right partner who is wanting to lay trust into us, I would surely like to replicate this process for a foreign company.

Most manufactures work on a tech pack...encroaching on their key business area by design outsourcing?

...yah I mean ...one can think on those lines your right that...but I think design is not the only biggest asset that the company has I think that the retail arm is also quite a... the brick and mortar the stores the kind of systems they have enabled to develop and they wouldn't outsourced their complete store requirements from one agency they would have outsourced one of the departments.

Oh yes (the concept of design outsourcing is very strong and real) and I mean the way the economy is moving the way the world is moving this will naturally happen.

***Design studio investments***

We ourselves are running a brand which is a complete family brand, which takes cares both the kinds of fabrics that is woven and knits and for that particular requirement we keep on upgrading our studio as in when whatever equipment is required.

We completely did this out of our investments which we had done already for sweet dreams so we ad all the facilities in place, it's an extension.

The areas where we are looking forward is not a chain with 3000 stores, there is world over there are pockets of chain stores where they are in the range of 10 to 50 stores, now these are the people who are fighting their survival one because they can't afford to have a big design department of their own you know the changing fashion so frequently...and gradually they are getting merged into the large dolphins and fishes of the world...ok... now if those people want to stay in business, there is merit in their staying in business because if they have grown to 10 and to 50 stores they are certainly possessing some kind of expertise which these big chains do not have maybe the personal touch, or maybe the merchandise selection, or the turn around time or the customer relation they are having those kind of strengths lying within themselves for their own advantage this large chain stores they are galloping fashions so very fast that world over people are finding it very, very difficult to align with it the speed they make it with...and you take the classic case of handsets, the mobile phones, the pace with which the technology is moving I think nobody can aspire to be in business on a smaller scale, I think same thing is happening in fashion.

One is that they will have the advantage of...they will be able to maintain their exclusivity, because it would be their own designs, designed by us specifically for them...with geographical boundaries, and second thing there will be some kind of a continuation in the line, why do retailers want to have brands? For the simple reason there is a continuation if a consumer walks into a retail store he or she assumes that from this and this particular brand I am going to get this and this kind of a garment. So what is happening now is these small retailers, in the range of ten to fifty stores, now one season they fly to China, Thailand and so many countries whatever comes into their end they buy it put it into the store...this consumer who has walked in last season and bought from that store not necessarily he or she will find similar kind of products or continuation, that's when...if you walk into a Zara store you know basically that if I go into this section I am going to get these kind of garments ... so they are able to maintain that continuation.

#### ***Small stores can afford your services?***

I think they should be able to because if they want an extension that if you make a complete range for them, then India is such a vast country there are so many opportunities where they can get it manufactured.

#### ***Bricolage or Munch***

You must understand there is no research kind of thing that we have done but this is an aspiration, but we can tell you that whatever designs we are going to make are going to be commercial, people would know for sure that at production level it will not be a problem, this will not cost you a bomb.

#### ***Main customers and buyers***

We are there at Kenya.... In UAE, in Dubai it spreads to the neighbouring countries because all the retailing chains they have got stores in Oman and all these places now-a-

days, we are there in Kuwait. These buyers are retailers not whole-sellers; they are department stores, multi-branded.

***Why East Africa and UAE?- why not Europe?***

As a company we have always focused on to Indian market and whatever business that has come across our way we have welcomed them and we have catered to those businesses, we haven't put up any extra effort in going to UAE or... they buyers have come in here, they have met us in some kind of fair they have liked the range they have sourced from us and they have continued to source from us, but strategically we haven't gone ahead and done...chosen specific markets.

***East Africa would be very is negligible, maybe 1 or 2%***

UAE I could say about 12 to 15 percent, and rest is for India

***Competitors***

My knowledge about competitors is very poor, I don't foresee, I mean I don't consider any company that is directly in competition with us because we are a niche market and because of the kind of privilege we have been having from our retail partners.

***Network of retailers- access***

This business is about 15 years old, so it's built brick by brick, we always had channel partners who were either agents or distributors for that particular geographical territory, so we have got two product presentations happening in a year, one is the summer range that is spring/summer and the other is autumn/winter. So we have got presentations in about 13 states now, my team goes there they completely display the range, they book the orders so it's a very scientific way of doing, it very logical, we have catalogues we have order forms and we have printed order forms and order bookings on laptops. Ours is invitation based, so we invite people, (don't do it on a mass scale, like a national fair type thing).

***Sourcing***

- The largest component is of course fabric, and then accessorizing it. Indirectly we have a control on the yarn that we finally going to be used in making the fabric. Just demonstrate to you how we do it...(gets us from desk and brings some garments over) we ask our suppliers to carry out...the behaviour of the fabric at the end of fives wash at the end of ten wash, at the end of twenty wash and based on this we decide on which particular yarn we are going to use for this particular season, because in knitted garments the yarn quality is something that is very, very important, if you have got your yarn right I think 50% of your problems are taken care of, now you can see the feel of the fabric which finally is approved, so clean surface, there is no hairiness and we are able to also see the behaviour of the product after certain washes beyond twenty wash we don't test because we assume that consumer is ready to take anything after twenty wash. In lounge wear the application is such that there is a lot of abrasion, because the use is much more second thing most of the time you are sitting posture you are lying down posture the fabric is always stretched and there is always some kind of abrasion so your

shirt may not have so much abrasion I am seeing you are not touching your back at the chair, but I am sure if you are in lounge wear it will be touching.

#### Quality maintenance

-By test and trial we assure yarn is right quality.

-We have our registered suppliers, we only source out of two set-ups in India, we just have two suppliers. But through them we access the entire supply chain. So through they will be a yarn supplier there will be an dyes and chemicals supplier, so if they are using some new dyes they would send us the samples first

So the R&D keeps on happening

We wouldn't possess knowledge on dyes but we defiantly know hats a good fabric

#### ***Source from abroad***

99% from India sometimes we import some polyester fabrics from China, but lounge wear this category is largely cottons and smooth fabrics, its better in India I mean even economically its better in India.

#### ***Choosing suppliers***

So far we select the most obvious partners, partners which are been used by the worlds Biggest brands like M&S and next and all of them they have been sourcing from India so these are the partners we have been working with, so we haven't carried out any evaluation as such, so we know quality assurance from them because they have been sourcing from them so we have confidence.

#### ***Sourcing decision***

Very common quality and price

#### ***Fully integrated set-ups?***

Some set-ups do have but it's not as organised and as well as other countries are having, like Thailand is having better china is also having much better set-ups.

#### ***How does it affect your operations?***

Its both ways, there is an advantage there is a disadvantage. You don't hit with competition so often because its not so easy to create so many things just on the sheer strength of money you have to knock ten doors and find which one is the right one, disadvantage is that we will not be globally competitive. See if I were to, from my same set ups, if I were to launch a product line into European countries I will not be confident...primarily because the way infrastructure is in India you know it requires a lot of intervention and monitoring and the customers in the western world are much evolved...they are much, much more mature.

Having said this, I am not discounting the quality that we make...ok...but as a business decision I would prefer dealing...with this kind of set-ups, into these countries rather than thinking of Europe where already there is they are fashions forward, they are quite evolved there maybe money is not the only driver for buying you know, our garments

may be cheaper as compared to the European brands but that is not the core which sells there.

It is not as fast as what we would expect, it's reasonably good as of now maybe 30 days on average for most of our products.

We source polyester from abroad, it's purely because of quality but also if the customs harassment is a little lesser in India it would be better to even have an alternate which would be importing.

***Ease of doing business is harder in India.***

***Raw Materials In India***

Yes, quite good. India is the biggest cotton producing country so whatever cotton goes in the globe either goes from India or china it's a matter of processing, how well you process finally.

***Processes***

All processes outsourced. (Why?)

We firmly believe that this entire garmenting business or this fashion business is very entrepreneur, so more the number of entrepreneurs the more the process it generates that kind of efficiency.

***CMT***

Yes they have this, they do package? Yes we do package.

Warehouse?...see warehousing in logistics is a very, very important part of business and people abroad they've realised this much earlier and they've invested in this much earlier...take Hong Kong...its huge...they have really in such a lesser kind of resource and space they have the kind of turnover they have is humongous, they have the biggest tonnage as far as the sea route is concerned, its the biggest hub in the world.

See all these requirements come out of our own requirements, sweet dreams it's a successful brand today and if it is to go to the next house we need to do proper warehousing ...we are talking to our EDP team now as to have logical addresses of ...you know ...so many stews that we are going to have ...if today we are visualising a fact that there are 700 jobs it may got to 2000 jobs in next three years time and if any particular garment of any colour of any size is required of any of the retail formats we should be in a position to very efficiently supply them. Now with this kind of a challenge in front of us if we have to pick and choose and go through... you know... depend on the people to know by heart that this particular style maybe lying in that corner I mean without using technology is ridiculous.



We'll have to map the entire warehouse on the computer suppose if the warehouse is of the capacity of stocking say 4lac garments there has to be 4lac logical addresses into the computer and the physical stock has to be mapped with it...If there is a new person today in the ware house...ok... he will get a report that these are the requirements this is the pattern list and this particular thing has to be picked up from vat number so and so and third layer of vat number so and so.

### ***Design***

We have a private label business, in which we offer these services (design for outside companies), it is our design studio. The design studio caters to the Indian markets.

Investments required in a Design studio:

We are yet to work on it as a business format, whatever is happening as of now is the requirements of sweet dreams and the business that we are doing now. As of now we have 15 people, who are involved in the entire designing studio, and they are all supported with the necessary software and equipped which are required...its cad/cam and there is a software there that we have recently evaluated, called colour matters.

There is software which I have seen recently seen called colour matters and this again is a software tool forecasting and outsourcing setups for designs.

Importance of design in differentiating

It is really important

Attracting foreign buyers...going foreign with our brand?

Very frankly we haven't charted out any such plans as of now because the Indian market itself is doing so phenomenally. See for international, if we have to move as a brand in international markets it requires huge investments, and unless this entire concept is backed by big money and risk funds... ok it doesn't make sense to take a step forward... you know what I mean .. you know what kind of money we are talking about...advertisement...but in India we have been fortunate to advertise in premium all through out...(brings out 'ok' magazine- India, and other Indian fashion magazines, with a full page advertisements featuring Sweet Dreams lounge wear)these area all popular... as a policy we only advertise on back covers.

### ***Next step? Going abroad***

See automatically growth drives people to expand it s a matter of relative terms, if we start feeling that now the growth which we anticipate is to come is going to come from overseas market easier than Indian market and more profitable ...so it's a call.

Design studios catering for international market (more viable for you)

If not we I am sure somebody else will do it.. but I find that one thing that is there people who are doing are doing from technical backgrounds I would love to see some... a group of Niftians , purely design orientated, they understand...and a group of Niftians who are commercially successful I think this is very important, Niftians as such is a very hazardous commodity you really need to tie them from ten different sides to be

commercially viable...not way out there designs, at an affordable price and at a particular time, if I design something which is going to be a big boom two years hence it doesn't make sense and if I design something which will be only be viable to manufacture with machines which are going to be 2 years hence...is also not viable.

***The reception of Indian brands abroad?***

I think like Indian people!....They would have serious doubts on the deliverables, I mean finally if they are paying something for the product they would always have a question in mind...will I get what I am paying... it will take a while for.

Branding helps go into international market- I have no experience

Branding used to go international? NO.

***Brand manage for international company in India***

We are in very advance talks for picking up a licence or a distribution of a leading international brand in lingerie category, hopefully we will also be managing the brand in India in terms of how it's being launched and projected with Indian consumers.

Difficulties we don't foresee any, because of our background, the way we have managed our brand so well here in India I think the moment they look at it, it becomes quite an attractive deal for the international brand as well...we already have the skill sets and knowledge of Indian market so its maybe easier for us than them, work sense...how do we go about things...

***Manufacturing abroad – not yet***

***Office abroad?***

We did plan, when ...Thailand was one market where we wanted to sell our merchandise prior to UAE, to test market the international ...because Thailand is a place where all international brands are there and that is one place where there is also a lot of manufacturing happening, its something like what India in a small way, so we did think of setting up operations in Thailand and eventually after our fact finding study it came out very clearly that manufacturing in India and selling in Thailand will not be a correct proposition we need to extend our design capabilities send those designs to Thailand and get it manufactured there and sell it to Thailand and the neighbouring countries. So if any brand wants to go that route, if they want to branch out, sourcing from India into at least Thailand or the countries which have got some kind of duty protection its not viable...economically its not viable.

No joint ventures

***Finance***

Its formal method, family is always there in all start-ups and growing business, but as you grow the requirements are much larger you can't sue family, very true.

Its becoming easier now; but still I can give you a classic example people in west would finance on strength of the brand valuation ok in India it is yet to happen, I mean whatever the valuation of your brand that you own they want something to touch.. The bankers don't have it [trust in brand] people do have it. They don't have history to support their decision; they don't have anything to go by?

### ***Government policies***

Any subsidized loans for setting up infrastructure,... the biggest problem that India has is infrastructure problem be it, roads, or airports or manufacturing or anything.

***Power supply*** – I don't think there is any kind of such situation, except for in certain pockets, but power is not a national problem as of now.

***Port access and infrastructure is a major problem...*** I think you have seen HK, if I have to compare HK to Bombay I think Bombay is ten times more difficult time wise and money wise also and roads are not up to the international standards. This all affects people doing international business 1000% percent.

The best thing that has happened in India is telecommunication is fabulous, so IT, there is no issues at all telecommunication is quite advanced.

***Generally the infrastructure,*** ...Have you been to China I can give you a related example which will be quite relevant...Bombay to Ahemdabad is about 500km odd kilometres, and Ghungzo to Shangtung is equal about 500 km, the highway that connects Ghunzo to Shangton in a limozine bus it will cost you about 1000 Indian rupees and you will be able to reach in about 3hours 45 minutes; the same distance will take at least about 10 hours in India, so people will not prefer to travel by surface, the only transport that one would prefer would be by air and it will cost at least about three times this and it would take about the same 3 hours 45 minutes...but cost much higher...additional costs, hidden costs.

### ***Ease of doing business/ dealing with licences taxes, fire hire?- problems?***

I don't think so, it's a part of business (problems of bureaucracy of doing business in India)...its not an annoyance, not now any more, see it's a growth phase, Now India is growing so nothing hurts when things are growing but when things become stagnant or slow all these things starts squeezing you.

### ***Location factors makes a difference?***

Oh yes! Location makes a difference to your competitiveness. We have a manufacturing set-up in Tiripur, we have a manufacturing setup-in Andabad and we have a manufacturing set-up in Bhavnagar. So for a particular garment if I have to do something say a knitted t-shirt in Tiripur and a knitted t-shirt in Andabad my tiripur cost

will be cheaper and more efficient in at least by 20% deal. Now if I have to do a woven garment now if I do it in Bhavnagar and I do it in Tirpur my Bhavnagar will be cheaper by 20% than Tiripur...they are clusters, they make a difference and pool of knowledge, as well as skilled labour is already there and available; Amhedabad is a place where a big set-ups for fabrics are there so Arvind, Ashima all of them are based in ahemdabad.

Yah if I am running short on time the transit time from Ahemdabad to Tiripur is five days so if I have to do something which I need it five days I do it in Ahemdabad.

**SEZ-** no we have not gone in for this, we do not export on this high scale.

Bribery- off-late hardly anything, its reducing I think so...you pay a bribe when you either want to do something in an accelerated mode, out of the cue, or you want to do something which is against the law, otherwise you don't need to pay huge bribery...a lot of the laws are outdated they need to be updated so people get frustrated they want to jump the cue because it's a stupid cue so why am I waiting for something I should not be waiting for...

### ***Company Structure***

GG group of companies- we have three companies under the group, SD PVT limited, SD lounge wear Pvt. limited, and GG Limited

We don't have the stress into diversified businesses; these are all related businesses...

Why structure as it is- under three separate companies?

Its again the businesses have been built brick by brick so they need to be reviewed now I think a year hence if we meet I think we would have one company and everything merged within that but these are locational companies we have operations in Tiripur we have operations in Bhavnagar and we have got operations in Ahemdabad so each location has got one company and then you know there were some excise laws that were not friendly to have one company and have three manufacturing units which are three states and which has got again three local kind of laws, so one is the central law and second is the state law, so your company is under the central law and then your manufacturing units are governed by the local state laws...

There are disadvantages of being structured this way in accessing capital, one is banks you investors your venture capital firms, one is that they want size and they want to deal with one identity...up to a certain stage it is clashing (i.e. for the laws you need a different format and for finance you require a different format so it clashes), then you don't have a way out...then you take into your stride that additional cost that is going to come your way.

They are completely professional organisations it helps and its , any situation has its advantages and disadvantages it helps them in a away that decision taking is quite decentralised and more logical without influences and the disadvantages are that the opportunity base and the risk taking base goes down...the entrepreneurial flare goes

down...but in today's world I think there is very little scope for the entrepreneurial route to grow very big... I think there are more than one reasons to it , see once you go a professional way you have many stake holders, people who want to grow with you and share also share your responsibilities and in the enterprise mode there forces coming from one or two or three key places the key positions and the rest follows so using of heads is more of professional organisations.

### ***Networking***

I think it's a very valid point that you have made, a very valid observation you made a very good observation,...I am not too sure of what is the kind of positions that NRI's occupy in international arena as far as this is concerned (garments), IT there was I... mean people had... the brains had drained from India and they were into key positions and they could influence the sourcing from here but in garments I don't really know how much they have been successful overseas, or how much they have been able to influence decision taking.

### ***Domestic growth of apparel market***

We have been growing at a steady pace of 40% to 50% every year.

- New investment last three years...3 crores
- New investment next three years... we will invest into brand and retail...10crores
- value of total sales last year 25 crores
- growth in sales last year by 40%
- increase in growth by 40%
- book value: 3 crores

### ***No foreign investments***

Exports last year 15% were exports  
Export directly but we have operations through agents also  
Growth in exports 40%...if they don't grow with us we will expand our buyers

The business model we want is in 20% for exports, 60% as in brand and 20% private label (manufacturing for other brands)...this is the final business model where we would settle

We expect to grow by 40 % next three years (that's the target)

Work force 600 people  
Permanent 100%  
Admin /management 100  
Skilled (350) and unskilled (150)

How many are managers? 5%  
Engineers or technicians? 20/100

University graduates: 60/100

Wage bill: 3.5 crores

Increase in employment every year 20%

Increase in next years 10, 10, 10%

### **Example 3**

#### **Case Company UNI**

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##### **CEO**

##### ***Background***

- Managing director of UNI group
- He use to run his family business in India and import to the US and sell to US retailers
- He learned most of his business from working with the family and being put in the deep end.
- His educational background is done in US where he did a degree in fashion school: where his expertise is in product sourcing
- Andy (S&B's guy) lived in same apartment block as him and they convinced him that he should work with them and source the material for them; on gut instincts he agreed and decided that the best option for him would be to move back to India, Mumbai (as he knew this place the best and was a good place to be in terms of sourcing)

##### ***Company Structure***

- 4004 inc is under the Uni group, and is one of the Indian hubs that belongs to the Uni group.
- The Uni group is the extended arm of S&B's –their sourcing arm; as they call them selves S&B's strategic affiliates. (CEO of Uni quoted examples for other companies who were similarly working as strategic sorcerers for large retailers e.g. As was AMC for target and as was PREL for Wal-Mart.
- They are exclusively working with Steve and Barry's and have no other companies with whom they have tied up with.

##### ***Growth***

- Plans for S&Bs: They intend to service at the moment just the American market, they are under plans to open up similar stores in India, however this is still on the drawing board and as of now no real changes
- Plans for UNI: they have not really got any such growth plans in terms of sourcing for other countries, at the moment they are exclusively catering towards the needs of S&B's.
- If there are any growth plans (at the top of his head- thinking aloud) - he foresees decreasing his reliance on India (as costs here are going up)...And maybe having similar setups in terms of diversifying their base to other countries like ...?
- As of now they are also growing in the kinds of products that they source; extending it to furniture and crafts etc...diversifying into other product areas besides garments.

### ***Benefits of being located in India***

- An immense talent pool
- High number of English speaking workers
- Proximity to vendors- Bombay being a hub
- Centrally located meets it suits several time zones
- Having a workforce that have qualified skill sets

### ***Challenges faced by working in the Indian Market***

- Real estate costs are soaring- especially in Mumbai
- They are setting up a training centre in Colaba as well as in Lower Parel, Mumbai
- The depreciating dollar and strengthening of the rupee...this has led to increase in cost structures by 15%
- Costs are always increasing as salaries are paid in rupees and with the strengthening of the rupees!!....and they are earning in dollars.
- Revenues are down as a consequence of a strong rupee....hence also makes sense to diversify their base so as to take advantage of low costing areas.
- -However from a labour, legal, IT and infrastructure, and their condition affecting business operations, point of view, such factors affect our business activities less due to the nature of it, which is less dependant on these factors for its functioning.
- -As for Bribery he does not use it (although others with whom they may do business may be using it)
- -yes there are hassles with bureaucracy etc but he feels all Asian countries seem to have the same problem and as such India does not suffer from it any more than the others and does not necessarily see it as a major hindrance

### ***Training***

- They train their staff, and have centres in Colaba and in lower Parel
- The training constitutes job specific training as well as

***Government can help***

- Tax holidays can be of help
- Allowing hedging for currency and options
- Otherwise for his particular area of work there is not much that can be done by the government

***Similarities with Li & Fung***

- The main similarity is that they too source garments for retailers
- The difference is that they have a wider retail group that they service
- However, our model is based on a higher level of value addition than that of Li & Fung, in that we also source for the consumables that S&B's require (i.e. light and fixtures and fittings etc.)
- As a consequence we require a much greater/wider variety of skill sets and thus a wide variety of trained individuals from merchandisers to designers to architectures etc. who would be able to deal with the varied and wider value added functions offered by our company.

***IT***

- They have built a ERP system from scratch (garage job) four years ago...as in the earlier stages of their business they were unable to afford the ready made ones. Additionally, he feels necessity is the mother of all invention and this was the case for their situation.
- Their ERP (supply chain management system) has been fine tuned and is being constantly tweaked to their specific needs and is one of their core strengths as it supports their key sourcing functions

***What makes company unique and what makes it tick?***

- He believes it's the unique culture of their organisation that is what makes them stand out.
- The whole work environment is similar to a high school environment. Everyone is young and vibrant.
- He himself may not know all 300 employees but he makes it a point to have lunch with five different people each week from different departments

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**Example 3**

**Interview with CMAI director & editor of CMAI magazine**  
**The Clothing manufacturers of India (CMAI)**



### ***Background***

- -MSc in maths and statistics
- -is the key policy writer for their members' magazine CMAI
- -has been 25 years in the Textiles industry
- -has been 25 years in the garment industry
- -has been in CMAI for ten years

### ***Role of the CMAI***

- Help members to diversify to different markets and into different product segments- this is their main function.
- Settling disputes between companies
- Any one who is connected to the garment industry is allowed to be a member, there are no restrictions.
- As members they are privy to a lot of services offered by the CMAI:
- -seminars held
- -circulars on export information, sales tax information and RBI information
- -help voice interest to the government
- They differ from the AEPC- as the AEPC was principally set up for manufacturers who exported; and it was formally compulsory for manufacturers who exported to be members of AEPC.

### ***Indian export markets***

- Traditionally there has been a dependence on the US by Indian manufactures as an export market. This dependence is 38% compared to 28% for the EU, the rest being a varied group of markets.
- The new markets have been Asia: Singapore, Malaysia, Thailand and Australia.
- Africa has been less so as its market offered limited capacity and is still a young, not so mature market.
- India's strong areas have been t-shirts (which are sold in the Asian markets), woven shirts and trousers; however we are not so strong in suits and overcoats

### ***Dollar depreciation impact***

- However this reliance is being slowly changing with newer export markets being targeted so to decrease the heavy reliance on the US market, as well as on the US dollar (although it should be noted that a lot of non-us market consignments have a dollar billing system- some manufactures are trying to convert such contracts in rupee and euro payments).
- However regarding the conversion from dollars to euro or rupees, buyers (retailers) are reluctant to go through the rigmarole; as well as the fact that such a conversion would be less in their favour.
- Furthermore they feel why Indian manufacturers should demand a change in billing from dollar currency when other Asian countries are happy to be paid in dollars; however the truth of the matter is that against the dollar other Asian currencies have not gained as has the rupee.

### ***Value Addition***

- There are various ways in which manufacturers can and do add value to their garments: some of which are embroidery, printing, detailing, specifically Indian motifs and prints...etc
- However the embroidery units are not organised, very fragmented

### ***FDI***

- In the garment industry FDI is only permitted for a single brand and it is limited to 49% stake by the foreign company. Hence not 100% FDI is permitted and that too not allowed for a multiple of brands
- In manufacturing FDI has mostly been through JV's and was previously limited to 49%...but I think has been now moved to 100%? –check up.
- Most garment manufacturing machinery is imported from abroad, very little domestically made machinery is used.
- The machinery is imported as the manufacturer is anxious to ensure that the quality of the brand is sustained at all times and thus is (although more expensive) likely to import their machinery and try and cut costs through improving productivity.
- The lack of FDI and JVs with foreign firms has a lot to do with the structure of the Indian Textiles and garment industry which is highly fragmented as well as mostly composed of small scale units which neither have the ability nor the finance to be considered for a JV with FDI.

### ***Structure of Industry***

#### ***General structure:***

- -small sector machinery value of less than 1 crore rupees
- -medium sector machinery value is less than 1.5 crore rupees value
- -large sector machinery value over 1.5 crores rupees value
  
- The garment industry constitutes of 80% small and medium sized sectors, and hence such companies do not have the finance for larger scale production in which most FDI partnerships are formed over (it has to be lucrative also for the FDI partner- i.e. he too needs to gain from a JV...in which the Indian partner may not be giving any value addition in terms of them partnering with the Indian firm).
- Hence FDI is limited to the top 20% of the industry as a result of 80% of the manufacturers being found in the small and medium size sector.
- A lot of Indian manufacturers are seen to be buying foreign brands, this practice is at its very early stages but is fast becoming a popular route for Indian companies venturing abroad.
- You find a lot of manufacturers (and they are not necessarily exporters- but instead domestic manufacturers)- who are Joint Venturing with foreign brands who want to enter the Indian market; e.g. Raymonds
- A lot of domestic companies (not exporters) are large and have plant and machinery over 10 crore rupees.

### ***Competitors***

- Vietnam's sector is very limited; although they have scale this is limited to the production of one or two varieties of garments, and thus is very concentrated
- However you look at Sri-Lanka, Pakistan and Bangladesh and the competition is real for India. Their government allowed the Koreans into the country to set up and train man power in the garmenting industry, and they turned productive so now Bangladesh has a garment export sector that is at the level of India.
- China is a large competitor, but mainly is into large scale production, which is the main difference between china and India.
- India is more fashion orientated dealing with orders in the range of 5000 to 15000, possibly 100000.
- Scale Vs Batch production: India he feels should continue to concentrate on fashion products i.e. batch production and smaller runs as trying to achieve scale production would lead to the grief of the fashion industry. Further more fashion production means there are more chances of competing on value, unlike in standardised mass production.
- This also explains why most firms in India are more happy with dealing in the EU than they are in the US (who is more scale standardised product orientated).
- He expects that during the next couple of years the share of exports to the US will go down and that to the EU will go up.

### ***Labour Productivity***

- There has been much talk regarding the productivity levels of Indian labour with the government.
- Flexibility of hours: Currently the hours have been restricted to a 48 hours per week, the industry would like to extend this to 60 hours/ week, with due compensation for the over time etc.
- Flexibility of hiring policy: The argument is that the clothing industry is seasonal and thus it is bound to have periods in which the labour force will be idle.
- However the issue is one which is not going to be solved as easily as the limitations come in the form of a government that has to take into consideration the ideals of the left
- Trade unions are also happy with the proposal of seasonal recruiting (as they realise unless the industry is to survive and remain competitive they themselves will be affected- however such support is not openly backed as they fear lose of membership.

### ***Government Policies***

- The garment industry is saddled with a lot of duties, taxed at various levels: central (here the companies receive part of the tax in the form of draw backs), state and corporation (in the last two categories the companies do not receive any kind of refund).
- Mr Panthaki believes "we (Indian garment manufacturers) are exporting more of our taxes than our products"

- The number of taxes by the state governments vary?; along with the fact that the different state governments levy different level? Of tax.
- Some of the taxes include product tax, service tax, entry tax, OCTROI
- In 2008/2009 they aim to consolidate all taxes under a single tax “goods and service tax- which should be uniform throughout the country.
- Case study:-example of the bureaucracy that creates inefficiencies as well as increases uncompetitive scenario’s for manufacturers: Excise duty (normally paid at the time of sale of final product and on account of this you get a tax rebate on the raw materials/inputs used during the manufacturing stage of the final product)- in recent years this tax has become an optional tax and instead you can pay the tax during each intermediate stage of the final product – on each component that maybe be used during the manufacture of the production of the final product e.g. chemicals, dyes, cotton, accessories etc- input duties. However although paying duties at each stage is cumbersome and results in a lot of paper work manufacturers prefer to choose the option of paying excise duty on the intermediate products rather than the final product (where they have the advantage of getting back a rebate) because they feel from past experience it becomes very difficult to convince tax officials of the amount of input costs that have gone into the manufacture of the final product and in fact results in added paperwork. As a result the taxes manufacturers’ pay affect their cost structures which they have no choice but to offload onto the buyer and hence makes them internationally uncompetitive.
- Note that 80% of the industry being under the small and medium sized category do not have the staff to maintain records (unlike bigger companies who are able to cope with such demands from a bureaucratic system).
- Labour laws are both under the jurisdiction of the state and the centre
- Element of corruption is nurtured and engendered due to the various laws and red tape that people have to deal with; fewer laws means less chance of breaking them.
- In the infrastructure area the government is doing its best...however it still lags behind other countries
- It takes 8-10 days for loading and unloading of a steamer, as the steamer has to wait- due to the lack of infrastructure- this means demurrage have to be paid by the exporter for the delay...again adding to their costs...in a lot of cases the exporter ends up air freighting the goods which is a more expensive means of transportation than would be shipping.
- They don’t have internationally based means of loading and unloading.
- All this results in increase in costs and at the same time delivery schedules are getting slimmer by the year.
- Mostly companies deal with FOB contracts and then there is CIFA- cost insurance freight by air and CIFS-cost insurance freight by sea.

### ***Dumping***

- A product is said to be dumped when its export price is less than its domestic price minus taxes.

### ***End of MFA***

- After the MFA expiry exports shot up by 35%
- Thereafter however a lot of domestic changes took place and our export growth came down substantially by at least 12%
- Excise duty was imposed for the first time in 2006- as a consequence government lost majority vote; a new government came who made excise duty optional- however in the case above we have seen where the system has engendered a reverse excise duty scenario where the raw materials excise duty is higher than that of the final product!!

### ***FTAs with India***

- For this the government relies on information supplied by the CMAI
- Rules of origin apply
- Zero % duty
- With EU we have 0% duty- where their products enter our market freely and vice versa.
- This is what Mr Panthaki's main analysis constitutes of.

### ***Free trade Zones (FTZs)***

- Main aim: since industry has to pay excise and returns- schemes should be set up where you can set up an area where you can get imports and exports duty free and by this your turnover gets enhanced and finances are not tied down (as you would not have to wait for draw backs).
- Raw materials from the domestic market should also be treated the same as an exported product as the component/raw material is being used by the exporter whose final product will be exported- in this way the domestic suppliers product should be given the same benefits as that of an exporter (i.e. duty free status)

### ***SEZ***

- A unit established in sez's will be treated as a foreign unit in a domestic market (benefits and extended benefits e.g. unit treated as a foreign unit where labour cannot raise issues and stifle production and manufacturers have equal obligations to see that labour is always satisfied).
- Sez's were instigated on the 1<sup>st</sup> Jan ? (2004/2005): in Mr Panthaki's opinion the basic objective with which it has been conceived has not been achieved (main objective was to create a manufacturing base but instead it has become a trading base, merely selling not manufacturing- however the commerce ministry thinks otherwise- in that sez's have been helpful).
- The opinion of manufacturers have been a mixed review: For some manufacturers it has popular choice while others find it a hassle to re-set up their

factories – by moving lock stock and barrel- just so that they are trading rather than deriving any manufacturing benefits.

- So far there have been 10 to 12 garment SEZs set up.
- If promoted and used correctly Mr Panthaki thinks SEZs are a good beneficial idea. Its original use it would create employment, but its misuse is no good- in effect if you can get round the development commissioner of the individual SEZ then you are ok.
- Commerce minister believes SEZs have been good at promoting exports however the finance minister disagrees.