

Migrants and the Foreign Expansion of Firms

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Abstract

Firms seeking to expand across borders look for advantages offered by the foreign location in conjunction with their own capabilities. Migrants by virtue of their inherited and acquired knowledge of the business and the institutional environment of their country of origin and their country of residence can be valuable sources of knowledge for firms. Firms can leverage this diversity in their workforce, which has been brought about by increased cross-border migration, to utilize the knowledge and connections of ethnic resources for achieving growth through cross-border corporate expansion.

International migration has helped abate the trends in negative population growth in several high-income countries in Europe and North America. In 2015, there were 244 million migrants, or persons born in one country but living in another, worldwide, in comparison to 191 million in 2005.¹ Europe has been and continues to be the largest host for international migrants. In 2015, there were 76 million migrants living in Europe, followed by Asia with 75 million migrants. The North American region ranks third with 54 million migrants. This phenomenon has led to an increase in the number of foreign-born in the business and the society of many countries. While several economists have examined the effect of migrants on labor markets in migrant-receiving countries in the past few decades, increased presence of skilled migrants in the firms of many countries has led to an increased traction in research examining the role of migrants in affecting the

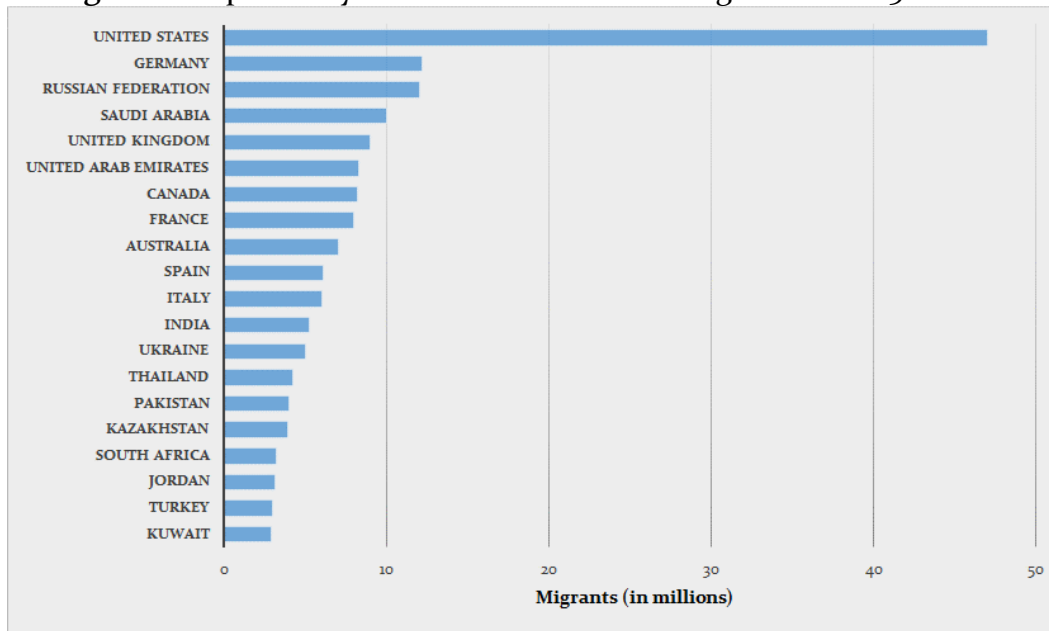
various activities of firms. Drawing on both the empirical studies published in the leading academic journals in the fields of business, economics and management, and on our own research in this area, in this essay, we offer our perspective on the role of migrants in influencing the foreign expansion of firms. We argue that migrant, especially those from developing countries residing in developed countries can help expedite the process of internationalization of firms from migrants' country of origin (COO) to migrants' country of residence (COR) and vice-versa.²

Migrant managers' idiosyncratic knowledge of the business environment in their COO is a source of comparative advantage for firms seeking foreign expansion

The liability of foreignness associated with the foreign expansion of a firm raises the uncertainty and hence the risks for a firm.³ This uncertainty may gradually fall as the firm gains experience in operating in cross-border locations.⁴ Migrants from a COO can help in alleviating this uncertainty for firms in their COR seeking to enter or increase resource commitment in that COO, whether the motive for firm's international expansion is market-seeking, or efficiency-seeking, or strategic-asset (including knowledge) seeking. A migrant managers' prior exposure to the economic, educational, political and legal system of their COO provides him or her with the tacit knowledge of their COO's business environment. This knowledge is unlikely to be gained by other persons new to that country, by just reading a book about that COO or even by an occasional visit. This knowledge, which is necessary for managers to navigate their way in the institutional environment of their COO, can become a valuable and inimitable resource for firms seeking to expand in migrants' COO.⁵ ⁶ In other words, the experience of migrant managers can substitute for firm's learning over time that would result from its incremental increases in resource commitments for expanding operations in their COO.

While migrants constitute about 14 percent of its population, the United States, for example, has the highest number of migrants worldwide in absolute terms. In 2015, there were 47 million migrants residing in the U.S., followed by Germany and the Russian Federation with approximately 12 million migrants each. Figure 1 shows the top twenty hosts of migrants in 2015 (See Tables 1 and 2 for a comparison of top migrant hosts in 2000 and 2015).

Figure 1. Top Twenty Hosts of International Migrants in 2015



Source: United Nations International Migration Report 2015

Table 1. Top Twenty Hosts of International Migrants in 2000

Rank	Country	Migrants (in millions)	Population (in millions)	Migrant Share of Population
1	United States	35	282.89	12.37
2	Russian Federation	12	146.40	8.20
3	Germany	9	81.89	10.99
4	India	6	1053.48	0.57
5	France	6	59.38	10.10
6	Ukraine	6	48.74	12.31
7	Canada	6	30.70	19.54
8	Saudi Arabia	5	21.39	23.38
9	United Kingdom	5	58.86	8.49
10	Australia	4	19.10	20.94
11	Pakistan	4	138.25	2.89
12	Kazakhstan	3	14.95	20.07
13	Iran	3	65.85	4.56
14	China, Hong Kong SAR	3	6.78	44.25
15	United Arab Emirates	2	3.05	65.57
16	Italy	2	57.14	3.50
17	Côte d'Ivoire	2	16.51	12.11
18	Jordan	2	4.76	42.02
19	Israel	2	6.01	33.28
20	Japan	2	125.71	1.59

Source: United Nations International Migration Report 2015 and United Nations Population Division

Table 2. Top Twenty Hosts of International Migrants in 2015

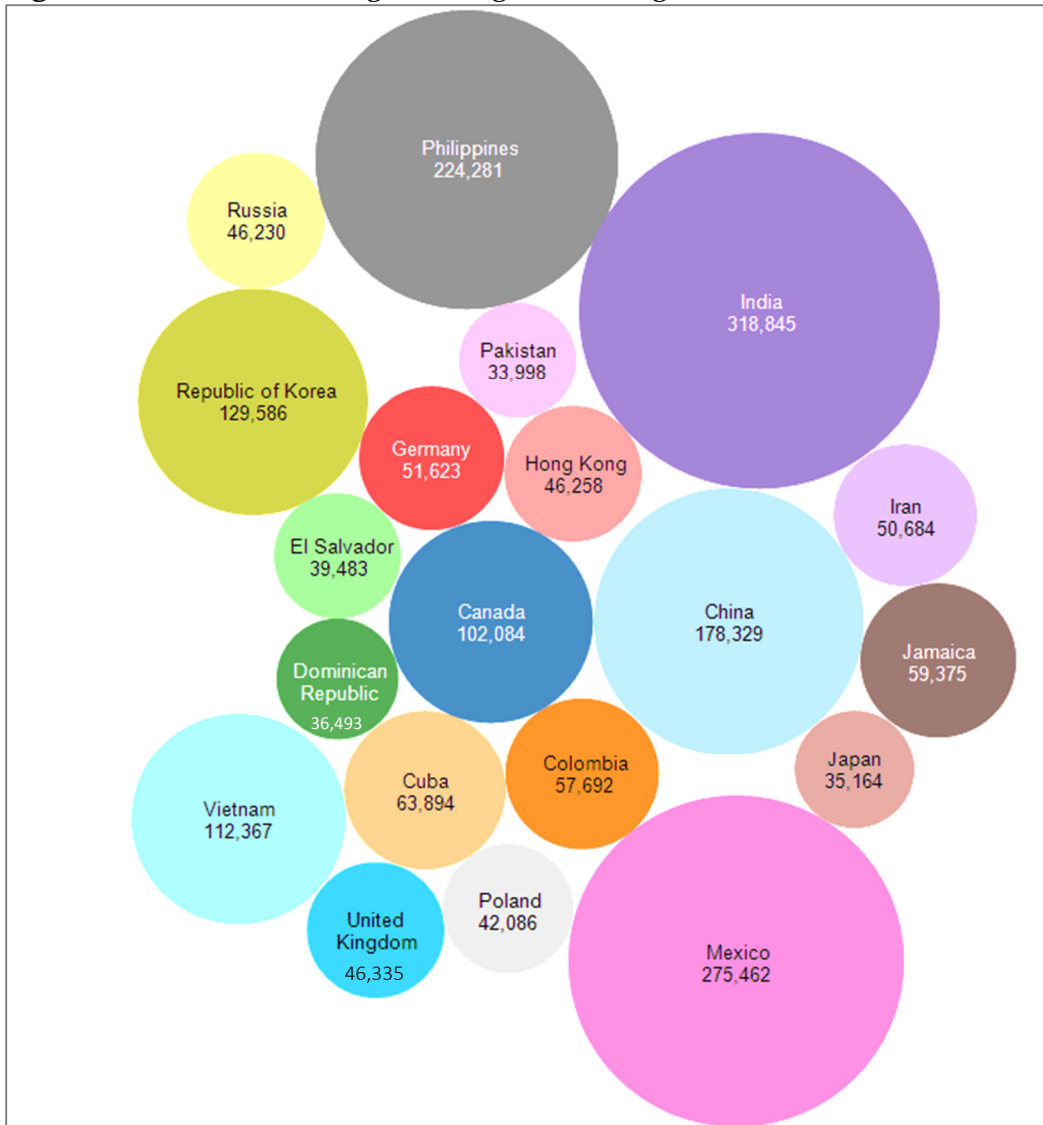
Rank	Country	Migrants (in millions)	Population (in millions)	Migrant Share of Population
1	United States	47	321.77	14.61
2	Germany	12	80.68	14.87
3	Russian Federation	12	143.46	8.36
4	Saudi Arabia	10	31.54	31.71
5	United Kingdom	9	64.71	13.91
6	United Arab Emirates	8	9.15	87.43
7	Canada	8	35.94	22.26
8	France	8	64.39	12.42
9	Australia	7	23.96	29.22
10	Spain	6	46.12	13.01
11	Italy	6	59.79	10.04
12	India	5	1311.05	0.38
13	Ukraine	5	44.82	11.16
14	Thailand	4	67.95	5.89
15	Pakistan	4	188.92	2.12
16	Kazakhstan	4	17.62	22.70
17	South Africa	3	54.49	5.51
18	Jordan	3	7.59	39.53
19	Turkey	3	78.66	3.81
20	Kuwait	3	3.89	77.12

Source: United Nations International Migration Report 2015 and United Nations Population Division

The U.S. was home to approximately 2.8 million migrant managers in 2010.⁷ Figure 2 shows the top twenty countries of origin of migrant managers in the United States.⁸ Figure 3 shows the top twenty countries of origin of migrant entrepreneurs in the United States.⁹ These figures illustrate the diversity of border-crossing resources available to firms in the United States. Firms can draw on the resources in their migrant pool to help expedite their internationalization process.

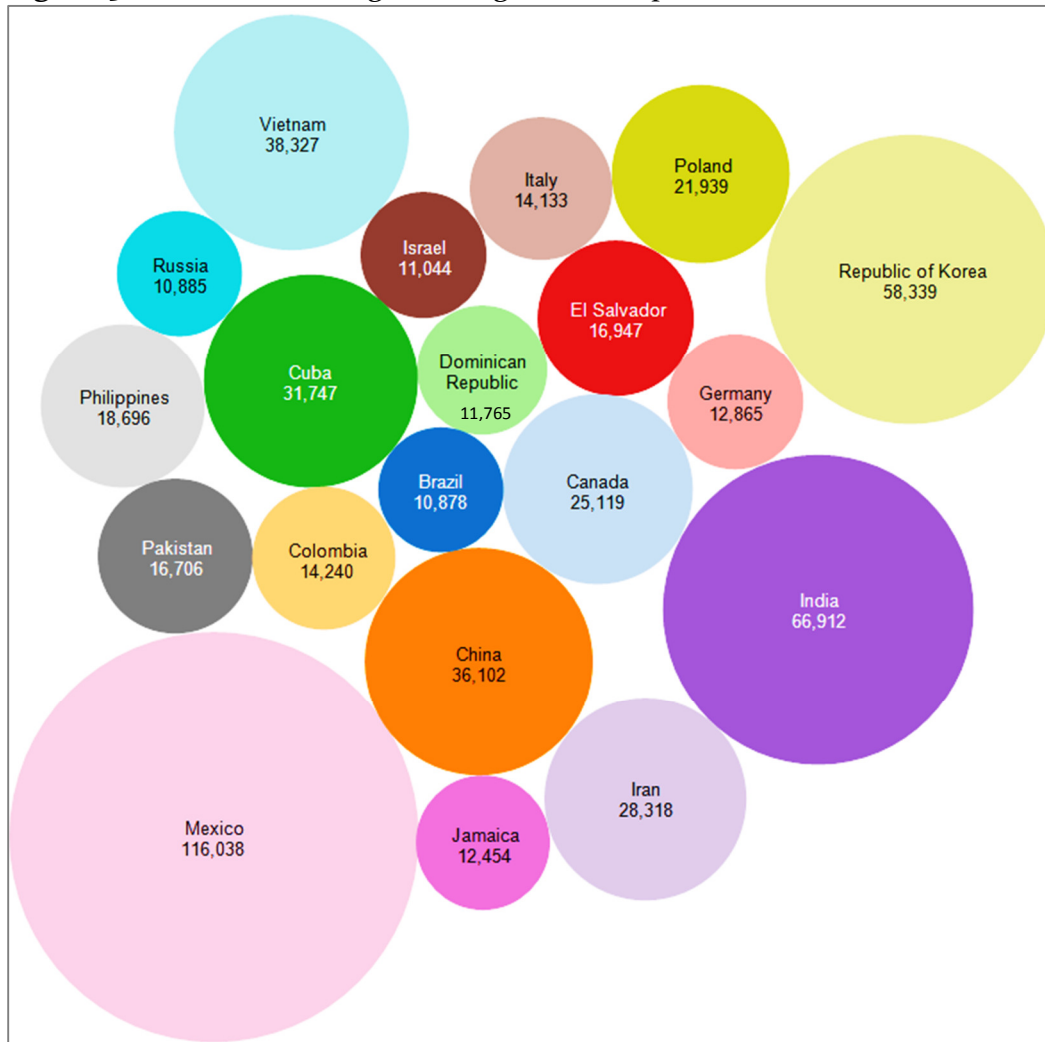
Migrants' tacit knowledge of customer preferences for differentiated products can be useful to firms in those industries and can influence market entry decisions.^{10, 11} A recent study has found that a team with a person who shares the same ethnicity as the customer is 152% likelier than another team, which lacks such a member, to understand the needs of the customer.¹²

Figure 2. Countries of Origin of Migrant Managers in U.S. in 2010



Source: Authors' calculations based on Census data from IPUMS-USA.¹³

Figure 3. Countries of Origin of Migrant Entrepreneurs in U.S. in 2010



Source: Authors' calculations based on Census data from IPUMS-USA.¹⁴

Migrants' idiosyncratic knowledge of their COO business environment can help lower transaction costs and informal barriers arising from cultural differences, as they are more likely to understand both what is being said and, just as importantly, what is left unsaid.¹⁵⁻¹⁸ In the 1990s, Walmart - headquartered in Bentonville in the state of Arkansas - entered the German market with the acquisition of two German retailers - Wertkauf and Interspar.¹⁹ Among the reasons that lead to the failure of Walmart's effort to expand in Germany was the fact that the German operations were led by an

American expatriate, whose insistence on the use of the English language and smiling greeters at the store entrances hurt the company.^{20, 21}

The usability of migrant managers' idiosyncratic knowledge of their COO depends on the level of information already available in their COR. The greater is the gap in the knowledge between the migrants' COO and COR, the greater will be the potential value of migrant managers' knowledge. The availability of migrant human resources and the existence of a knowledge gap, in conjunction with a willingness to share that knowledge in organizations that the migrant manager is a part of, can facilitate the foreign expansion of a firm. Anecdotal evidence suggests that prestige, economic benefits and altruistic motives play a role in migrant managers' willingness to share their knowledge in the firm that they are a part of.^{22, 23, 24} For example, Radha Basu, who set up the Indian development center for Hewlett-Packard (HP) in 1985, strongly identified with and committed herself to India's economic development, and this commitment helped her in taking personal risks in order to establish HP's Indian operations.²⁵ Basu used her credibility to gain confidence and trust of HP management as well as Indian bureaucrats to successfully establish the HP-India development center.²⁶ Similarly, Mr. Yung Ching Wang, who was the Chairman of Formosa Plastic Group, a plastic manufacturer headquartered in Taiwan, made large investments in the power-generating sector in Fujian province, which was his home province before he migrated to Taiwan.²⁷

Migrant ties – social, business and familial – provide access to new knowledge networks

In today's highly connected physical and digital world, the business environment is viewed as a web of internationally intersecting social networks, and even greater uncertainty is likely to arise from "outsidership" in such networks than from the more traditional notion of the psychic distance between places.²⁸ Migrant managers' social, business and familial ties can be a source of new networks and can provide access to new knowledge for the firm seeking to expand in his (or her) COO as well as COR.

Personal ties tend to discourage wrongdoing in business transactions.²⁹ Since transplanted migrants leave behind personal ties in their COO, these migrant ties can provide investing firms access to networks in a migrant's COO. These ties can also act as conduits of knowledge for firms in a migrant's COO that are seeking to expand their operations to that migrant's COR. Migrant ties can help match cross-border buyers and sellers and can help in

identifying potential partners, human resources and other strategic assets for a firm.³⁰ Ties of migrant scientists and inventors also affect technological knowledge flows between migrants' COO and COR.^{31, 32, 33} These connections often help in identifying cross-border resources and assets, and they can facilitate the internationalization of the research and development efforts of firms.

The cross-border connectivity provided by migrant managers can be accentuated through their participation in international (professional, industry and alumni) organizations as well as trade and business development fairs.^{34, 35} This is illustrated by the Vibrant Gujarat Global Summit, that started in 2003 to increase awareness among foreign investors of the opportunities in the state of Gujarat in India.³⁶ Organized by the state government of Gujarat, the summit is attended by political leaders and policy makers, heads of international institutional organizations, academics as well as leaders in the world of business. Among the attendees are always several hundred non-resident Indians with interests in investing in their COO. Anecdotal evidence suggests that such events often lay the foundation for new networks and potential partnering opportunities. For example, Chike Obidigbo, who runs a factory that makes soaps and other household products in Enugu, Nigeria, relies on his Igbo tribe members in the African diaspora in China (whom he had met at trade fairs) to inspect machines that he learns about through browsing on the internet, before purchasing them for his firm – Hardis and Dromedas.³⁷

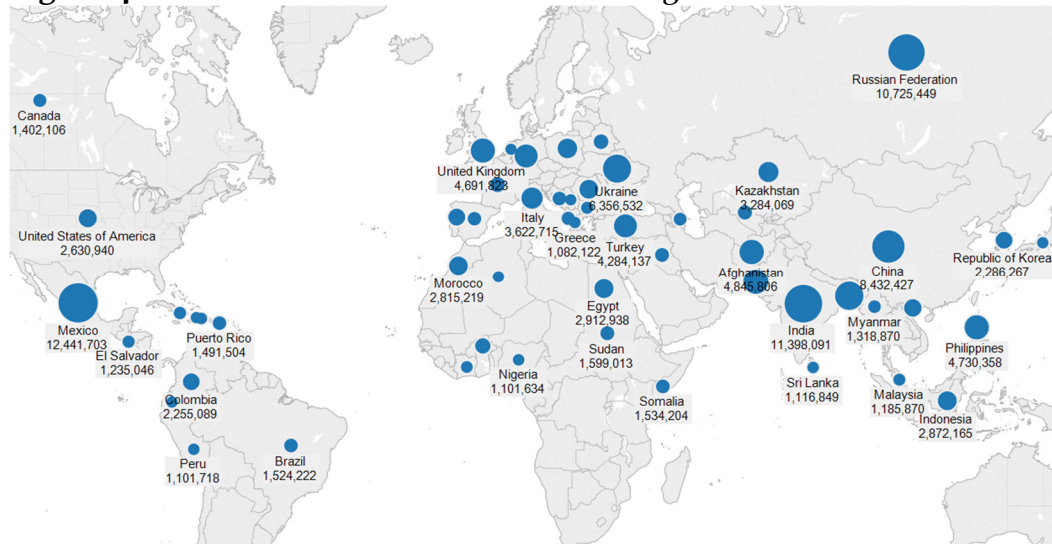
Several other actors and instruments also play a role in facilitating connectivity between a migrant's COO and COR. The issuance of diaspora bonds by the governments of Israel and India to raise funds and the efforts of international institutional organizations (such as the African Diaspora Program – Mobilizing the African Diaspora for Development started by the World Bank) to facilitate economic development in less developed countries by harnessing the resources of their diaspora play a role in building economic bridges between a migrant's COO and COR.³⁸ A few governments have taken this a step further to draw on the resources of their skilled emigrants. Scottish Enterprise, which is Scotland's primary economic development agency, financed the creation of an international business network of Scots and other persons who were affiliated with Scotland in some way, in an effort to bring together, connect, and harness the expertise of highly skilled and well professionally networked Scots around the world.³⁹ In other words, migrant managers are likely to have ties to their peers, ex-coworkers and friends in

their COO through a variety of channels. These ties may become a valuable source of business, institutional, cultural and technical knowledge for firms seeking to expand overseas.

Conclusions

The number of international migrants is on the rise worldwide. In 2010, there were approximately 11.4 million Indians living outside India, 8.4 million Chinese living outside China, 4.7 million Filipinos outside Philippines, the same number of British outside Britain, and 4.3 million Germans outside Germany.⁴⁰ Figure 4 shows countries with over one million emigrants worldwide in 2010.

Figure 4. Countries with over One Million Emigrants Worldwide in 2010



Data source: United Nations, Department of Economic and Social Affairs

According to a recent United Nations report, about 71 percent of the 244 million foreign-born live in high-income countries.⁴¹ The number of migrants from developing to developed countries has grown from 14 million in 1960 to 60 million in 2000.⁴² As a result, the business and the society of several migrant recipient countries have become increasingly diverse. This phenomenon presents an opportunity for migrant managers in firms as well as native managers who have skilled migrant workers in their teams. They can leverage this inherent diversity (or diversity arising from traits that one is born with) in their workforce to not only drive innovation of products and services, but also to utilize the knowledge and connections of ethnic

resources for cross-border corporate expansion, and thereby to expedite growth through internationalization.⁴³

Authors

Pallavi Shukla is Lecturer in the Department of Management and Global Business at Rutgers Business School-Newark and New Brunswick. Her research lies at the intersection global strategy, migration and institutions literature streams. Her current research examines the role of migrants in affecting the foreign direct investment activities of firms in migrants' country of origin and their country of residence. Pallavi Shukla received her PhD in Management from Rutgers University. She holds a special sworn employee position at the U.S. Bureau of Economic Analysis in Washington, DC. She has previously worked in the financial services industry for over a decade in New York City and India, in various positions ranging from software engineer to an Associate Director in the Information Technology domain.

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Endnotes

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2. For this purpose, we assume that migrants have lived in their country of origin for a considerable period of time before moving to their country of residence. In other words, they have been exposed to the political economy and the business environment of their country of residence before they migrate. A person who attended school and college in his or her country of origin, before migrating to a new country would fit this criterion.
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