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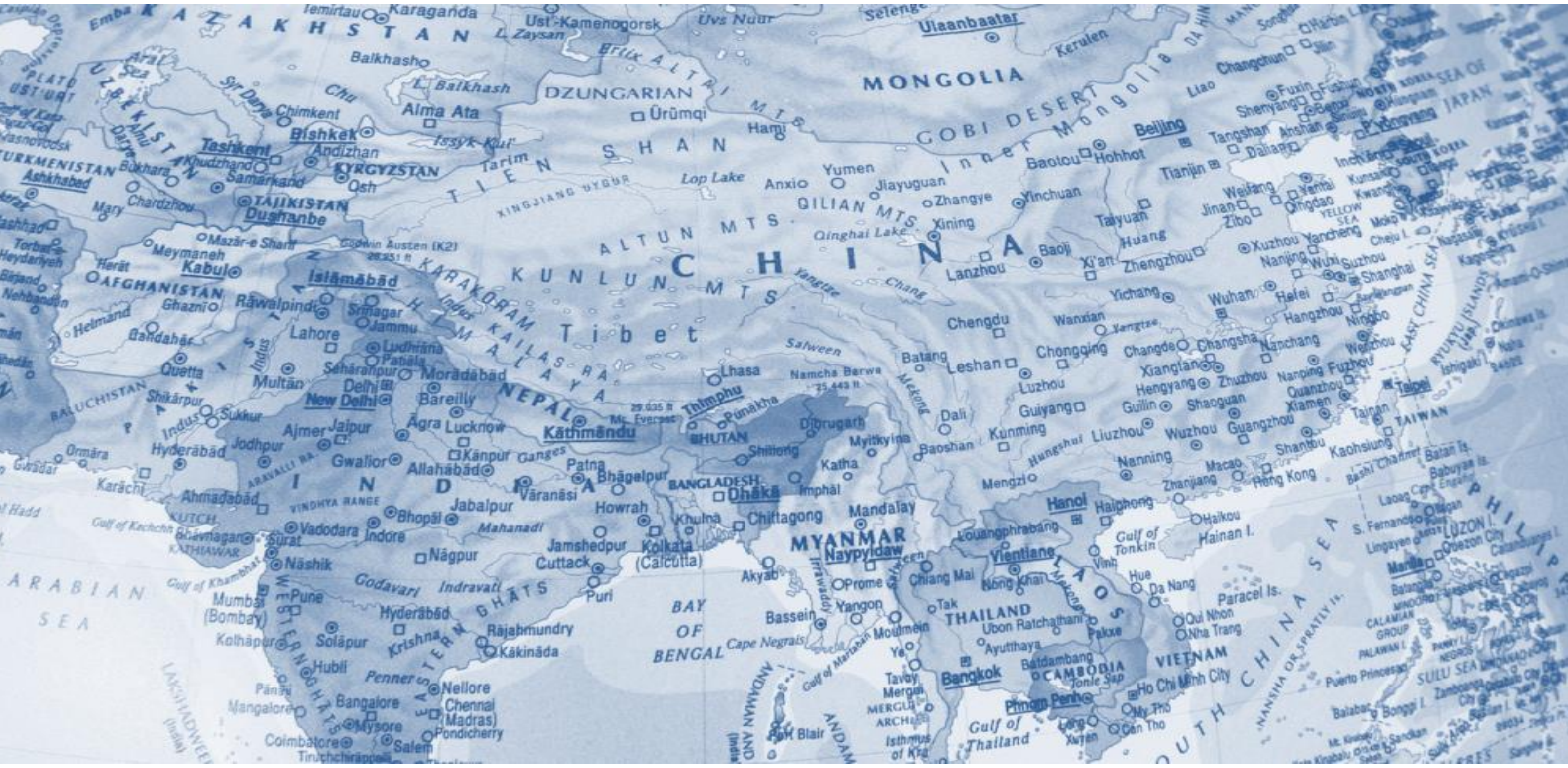

Behavioral and Cultural Aspects of German Family Firms Internationalizing to China and India

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1. Introduction

The Chinese and Indian markets are the largest in Asia and, in recent years, have shown tremendous growth rates despite economic turbulences. German family firms have leveraged these trends to internationalize to those countries and been able to achieve stable growth rates in revenues in the face of the stagnating Western economy.

The study at hand, based on the analysis of 31 interview-based case studies, shows that German family firms have invested a significant amount of resources in the development of international activities in China and India. The Chinese and Indian markets offer a lot of untapped potential and German family firms are committed to participate in these developments. Especially, the myth of China being the extended workbench of the West has long been outdated. Exporting activities have been a starting point for most of the German family firms, which have further explored these markets. The entry mode strategies have been Joint Ventures, M&A activities or Greenfield/Brownfield Investments, with a majority leaning towards a Joint Venture (39% China; 55% India) or a Greenfield/Brownfield Investment (47% China; 45% India). The balance between these two contrasting entry modes reflects the different approaches German family firms choose when entering these markets. The key challenges appear to be very consistent among all study participants and partially overlap for the Chinese and Indian market as language, religion and culture, especially in terms of business culture, have been considered most important, together with understanding networking and bureaucratically issues.

Particularly, the business cultures that are highly oriented towards personal relationships require intense networking activities, strong local partnerships and trusted local employees who have market knowledge and experience. Specifically for German family firms, understanding the importance of the family in Asia is crucial. Presence of family members in negotiations is an obligation, regardless of their role in the family business. Furthermore, building close relationships with the families of business partners constitutes a strategic advantage.

Despite the high degree of international activities of the 31 sample cases, with an average of 35 active foreign markets, China and India still present a challenge and require a large amount of time and resources from the family firm and the owning family, although and especially because they will play an even more significant role in the future.

2. The strategic relevance of internationalization for German family firms

2.1 The internationalization of family firms

Drivers of family firm internationalization can be identified in the ever-intensifying globalization, with fierce worldwide competition, technological developments, and new growth prospects beyond national borders. Family firms can indeed leverage on economies of scale effects and lower labor costs, lower commodity prices, as well as access to new qualified employees and know-how in foreign industry clusters.[1]

In the past decades, family firms, i.e. firms with a family having majority ownership and/or substantial influence on strategic decisions,[2] have been internationalizing their businesses successfully, entering new markets around the world. Among those markets, Asian economies are of high interest as they are pursuing a bigger share of higher-margin marketing and customer services. Among the Asian countries, the Chinese and the Indian market offer the greatest opportunities in light of the enormous market size and the substantial economic development. Indeed, Chinese consumers have a greater purchasing power and expect a higher level of quality of the products/services, thus making China a linchpin of demand.[3] India, as well, gains in private consumptions, sustained by an increase of wages, especially in the rural areas, and benefits from a rapid increase of public investments.[4]

Internationalization offers opportunities for family firms that want to participate in the know-how and innovation processes of other countries by accessing their human capital and technology.[5] Furthermore, international growth benefits family firms and their customers by optimizing cost structures and accelerating innovative product and service development. Finally, a steady growth to international markets offers new learning and employment opportunities for succeeding generations or simply increases distributable dividends. However, international growth can also be challenging for family firms due to the increased competition at the local as well as the global level that pushes them to innovate and differentiate their products. Organizational complexity increases with every new market entered, due to geographical and cultural distance (e.g. different languages, cultures, business environments, political systems and customer expectations).[6] The unique features of family firms, given by the coexistence of family and business objectives, can amplify these challenges. Strong family ties and values, often routed in a local cultural context, might indeed increase the risk-averseness of family firms in the process of internationalization.

In light of the foregoing, the study at hand aims to investigate the international activities of German family firms into the Chinese and the Indian market and to understand the management, cultural and behavioral implications, especially focusing on the secondary B2B industry and mainly on foreign direct investments (FDI), as a form of internationalization requiring higher level of commitment (in terms of human and financial resources). The study is based on 31 German family firms, which are in different stages of their life cycles, as 13%

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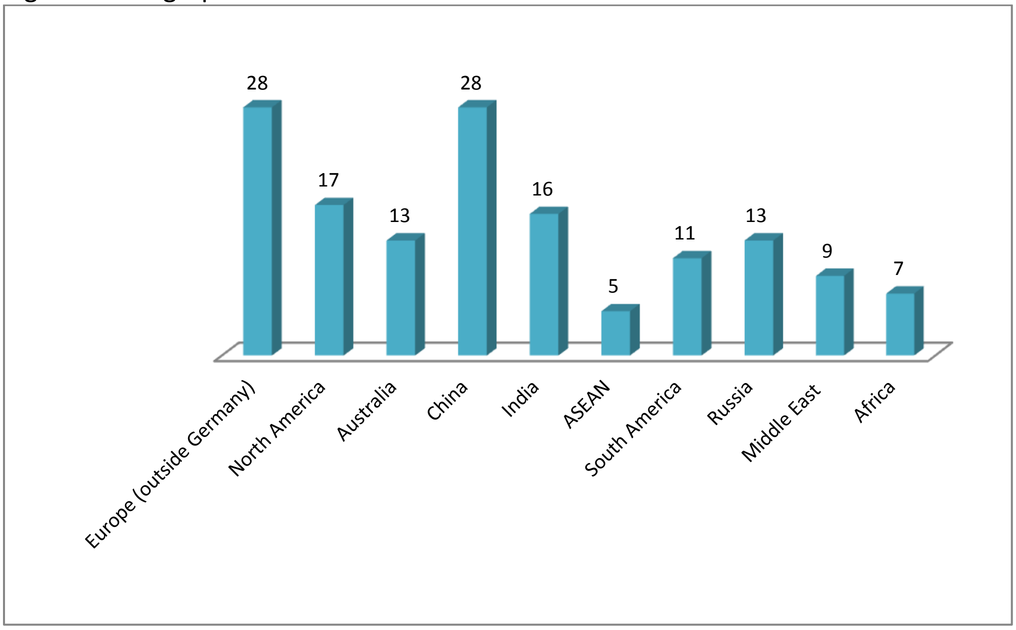
[1] Pukall and Calabrò (2014); Johanson and Vahlne (2009).
[2] Chua, Chrisman and Sharma (1999).
[3] The Economist (2015).
[4] Organization for Economic Cooperation and Development, "Economic Reports,"(Organization for Economic Cooperation and Development, 2017).
[5] Dicken (2007).
[6] Singla, Veliyath and George (2014).

have both first and second generation present in the business, 22% are in the second generation, 22% are in the third generation and 43% are in the fourth or later generation.

In first instance, it is important to consider the widespread nature of the international activities of the 31 German family firms that participated in the study.[7] In fact, they are present in more than 35 countries, geographically located in Europe (with a focus on Germany's neighboring countries), in the US market and in the Asia-Pacific area among others, as Figure 1 illustrates.

Figure 1: Geographical location of international activities

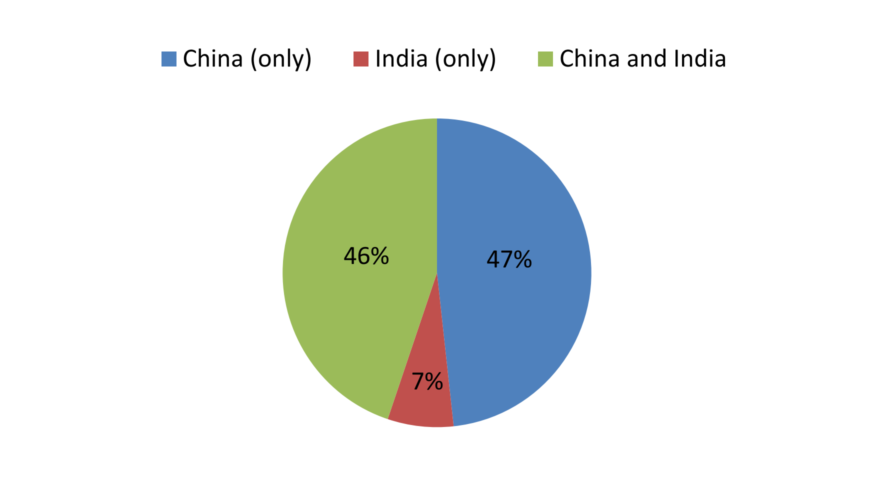


Source: Own elaboration

Overall, German family firms tend to first focus on countries with low geographical and cultural distance.[8] Nevertheless, they have an over-proportionally strong presence in the Chinese market compared to India and ASEAN countries, mainly due to the strong economic development of the Chinese economy. Surprisingly, despite the higher cultural proximity to Germany, only around half of the family firms have business activities in North America; interestingly, more than one third of the study participants internationalize in Russia. Additionally, the South American market appears to be on the rise, mainly focusing on Brazil, Argentina and Chile. Figure 2 shows that almost half (46%) of the family firms in this study are active in both China and India – whereas 47% internationalize only in China.[9]

[7] The family firms are selected following these criteria: >50% family ownership, at least in the 2nd generation, turnover >€100 Mio, production/secondary industry, international activities in China and/or India.
[8] Banalieva and Eddleston (2011); Kraus et al. (2016); Mensching et al. (2016).
[9] There are merely two German family firms having international activities in India only.

Figure 2: Overview of international business activities in China and India



Source: Own elaboration

2.2 Why China and India?

China and India are the two largest countries in the world with around 1.4 billion and 1.3 billion inhabitants. They have seen decades of economic growth and prosperity, proceeding to reach the OECD[10] members.

With current growth rates of 6-7% annually (2015),[11] despite the financial crisis and a worldwide economic slowdown, China will overtake the US as largest economy in the world in the near future. Although India's economic progress has been slower due to several reasons, such as the democratic political system as opposed by the centrally planned economy in China, it is estimated that India will reach China in the next two decades. Table 1 offers an overview of the main demographic and economic statistics of China and India, compared to Germany.

Table 1: The Chinese and the Indian economy in comparison to Germany (latest available data)

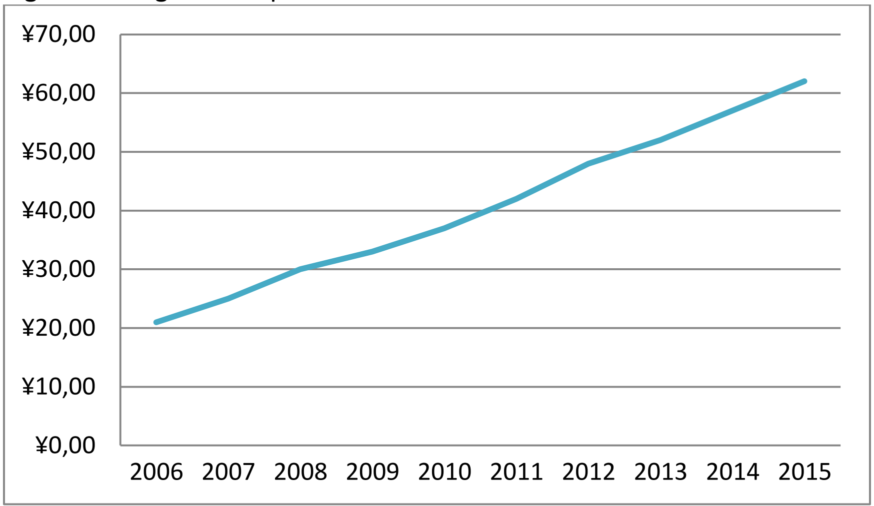
Economic Statistics (2015)	**China**	**India**	**Germany**
Population (in million)	1,371	1,311	80
GDP total (in US$ million)	11,008,000	2,095,398	3,363,446
GDP Growth (% p.a.)	6.3%	7.6%	1.7%
Inflation Rate for Dec 2016 (p.a.)	2.1%	3.17%	1.9%
FDI Inflow (p. a. in US$ million)	249,859	44,009	46,227
Government Debt to GDP	43.9%	69%	71.2%

Sources: World Bank, CIA

[10] Organization for Economic Cooperation and Development, "Economic Reports".
[11] World Bank, "Economic Data for China, India, Germany" (2016).

This substantial economic growth of China is accompanied by an increase in purchasing power (see Figure 3) among the middle class representing 12% of the population (around 148 million people). This middle class group is expected to grow tremendously in the next decades due to the 620 million people in the urban and rural working class regularly claiming wage increases.

Figure 3: Wage development in China 2006-2015



Sources: Trading Economics; MOHRSS China

Despite the difficulty in finding comparably reliable figures on the wage development in India, the increase has been up to 30% per year in industries such as IT, medical and pharmaceutical. However, the overall increase in real wages has only been 0.2% since the recession in 2008, although GDP has grown by more than 60% in the same time period,[12] making Indians among the lowest paid workers worldwide.

Since the elections in 2014 and labor protests in the economic hubs, several subsidy programs have been organized with the aim to attract more skilled and well-paid job positions to the country as well as tackle wage disparity. The economic rise of both countries requires huge investments in infrastructure to support further growth. The economic and urban districts are growing, new hubs are developing and the need for transportation of goods and people is steadily increasing.

"China spends more on economic infrastructure annually than North America and Western Europe combined."[13]

German firms are very well respected for their quality and innovative technologies, making them a favorite partner for public infrastructure projects in China – together with Chinese manufacturing firms in form of strategic alliances or joint ventures. In India, the investments in infrastructure are at the top of the agenda of the current government and highly necessary investment programs in streets, trains, airports and harbors are expected in the near future. Due to the different political system, the processes are often lengthy and not as efficient as in China. Besides these investments in infrastructure, Chinese and Indian local

[12] Press Trust of India (2016).
[13] McKinsey Global Institute (2016): 4.

companies benefit from the increasing level of employees' education and skills, which drive quality improvement as well as innovation potential. Both developments offer great opportunities for German family firms that, in the past decades, have been struggling with low quality production and unskilled workers in China and India. Therefore, public investments on the one hand and higher human capital on the other hand represent a blooming environment, especially for firms that operate in the secondary industry in the B2B sector.

Both countries are currently in a developing stage with high growth rates and a flourishing economy. Nevertheless, such fast developments tend to pace out necessary reforms not only in infrastructure, but also in the health care and education sector. These are key challenges that China and India will have to face for their future development.

China's main challenges are: a) the transition from the unskilled factory workforce to a more office-based and service-oriented industry, which requires improving the level of education and skills of Chinese people; b) the creation of jobs not only in the public but also in the private sector; c) the attraction of qualified international workforce and management, which is particularly difficult given the reluctance of Western firms to move the jobs requiring highly skilled workers to China (e.g. for R&D departments); d) the reduction of corruption and the increase of reliable systems to protect intellectual property (IP) that are already in progress; e) the availability of new markets for products and the increase of investments abroad.

India on the other hand, is lacking reforms on social issues, such as urbanization, health care, and education. With solid economic growth rates, the democratic political system has led to comparably slower developments in the public infrastructure and social systems. The high demand for skilled workforce especially in IT, medical and pharmaceutical industries, which are based in the Indian economic hubs, as well as the growing number of international companies setting up their R&D departments in India, is creating a high demand for higher education. At the same time, the urbanization is rapidly increasing especially in the areas next to Mumbai and Delhi.[14] Investing in these cities to secure water access, sanitation and health care has proven to be one of the biggest challenges for India and will not stop with the continuing urbanization.

Overall, this chapter has presented the widespread presence of German family firms, which face the necessity and challenges of internationalization. The relevance of the Chinese and the Indian market has been discussed in terms of increasing growth rates, consumers' demand, wages and infrastructures. The next section aims at presenting the motives driving German family firms to internationalize in China and India, as well as the different phases of the decision-making process, the sources of information and the criteria followed to identify a specific location within the Chinese and the Indian market.

[14] Brar et al. (2014).

3. German family firms in China and India

German family firms internationalize to China and India for several and diverse reasons and through a variety of strategic approaches. From carefully planned strategic approaches to rather quick "gut feeling" decisions, the experience of these 31 family firms offers deep insights into the variety of motives, often combined, for moving into China and/or India. There are numerous overlapping motives that often result in the combination of *structural* and *situational* motives triggering the internationalization process.

The study participants have described the phases of the *strategic decision-making process* followed to enter the Chinese and the Indian market. They have also explained how they *selected and used strategic information* and, finally, detailed the criteria they used to *choose a specific location* within the two markets.

3.1 Why do German family firms internationalize to China and India?

Based on the evidence emerging from this study, German family firms internationalize in China and India because of two main groups of motives:

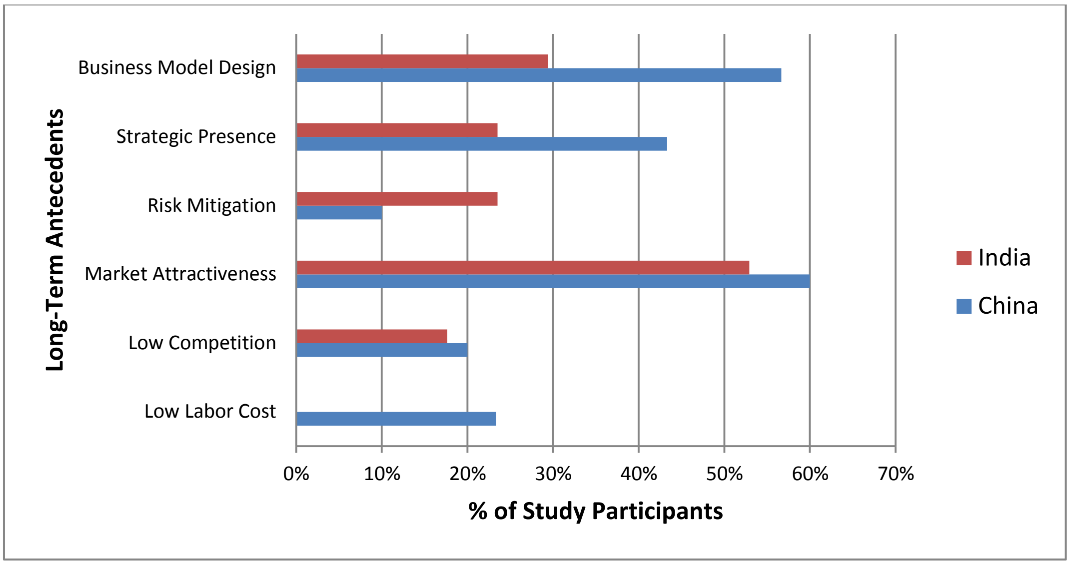
- **Structural motives**
  Including plans, guidelines, processes and actions the family firm integrates within a formalized strategic plan. They can be further categorized as follows:
  - Business model design
  - Strategic presence
  - Risk mitigation
  - Market attractiveness
  - Low competition in the target market
  - Low labor cost

- **Situational motives**
  Including specific events (at market-, firm- or family-level) triggering the entry into the Chinese and the Indian market. They can be further categorized as follows:
  - Customer demand (B2B)
  - Market saturation
  - Stagnant revenues
  - Economic distress
  - Joint venture opportunity
  - Incoming generation involvement

3.1.1 Structural motives

Among the strategic motives, the interviewees listed *business model design*, *strategic presence* and *risk mitigation* as motives related to specific strategic plans whereas *market attractiveness*, *low competition* and *low labor cost* have been described as motives related to growth opportunities (see Figure 4).

Figure 4: Structural motives for internationalization to China and India



Source: Own elaboration

The *Business Model Design* refers to the identification of an untapped market opportunity that can monetize into an additional revenue stream in China and/or India. Indeed, this motive relates to the implementation of a framework which allows the family firm to understand and visualize their value propositions, their main customers, the customer relationships and revenue streams, among others.[15] The family firm is not only aware of how ow it generates value in its current market, but is also able to assess the risks connected to the target market and adjust products to local customers' preferences. Recognizing how the business model can adapt to international markets is thus a fundamental aspect and a tool that family firms set up for their business activities in China and India. More than 55% (and around 30%) of family firms in the study stated that they entered China (India) after having structurally reflected on their *business model design* (see Figure 4).

The *Strategic Presence* in the Chinese and the Indian market is a key concern for German family firms active in the secondary industry. Due to the globalized economy, the large customers in the B2B production sector are mostly active globally. The fast growth of China and India, especially in infrastructure and construction, attracted many of these global players to enter those markets in the 1980s and 1990s. At that time, there were strict political regulations in China allowing large corporations to only enter the market in the form of a joint venture with 50% ownership of the state.[16] This has led to a large FDI inflow into China and foreign companies quickly started setting up their supply chains in China.

"If you wanted to be part of the show, you had to be in China. Otherwise, your customers could lose you [quickly] from their radar and often look for new suppliers outside China as well. You could lose business outside China for not being in China." (Incoming successor, owning family, Case 21)

[15] Afuah (2004); Afuah and Tucci (2000).
[16] Harwit (2001).

Due to the different political system, these regulative developments have been considerably slower in India. The Indian market – in size and importance – is constantly growing and a strategic presence will be inevitable for German family firms.

Risk Mitigation has mainly led German family firms to enter India. While 25% of family firms in the study listed risk mitigation as one of the main motives to enter the Indian market, only 10% reported this as a structural motive to internationalize in China. This tendency is due to the higher level of trust that German family firms tend to have in the Indian market, although regulatory developments are slower. German family firms perceive that the Indian democratic political system has built a solid base for sustainable growth; hence, if internationalization is seen as a diversification strategy to reduce risk exposure in the future, India is preferred. Instead, although the growth has been tremendous in China, there is still a lack of complete trust in the political regime.[17] Consequently, India is seen as a safer environment for stable growth and thus preferred in case of diversifying risk exposure.

"The [Chinese] government can force millions of people to relocate to build a new industrial park. The government does not sell you land or buildings, just long-term rent and can take it away anytime." (Former CEO, owning family, Case 12)

The *business model design*, *strategic presence* and *risk mitigation* are considered of fundamental importance for the family firms in the study, as they contribute to give to next generations a firm that is wealthy and can further survive. Therefore, looking carefully at those motives and including them into strategic plans gives to family firms the possibility to sustain their competitive advantage.

"You always look around! Where is the industry growing? Which markets are discussed in the newspapers? Where are the big players going? Or you see your customers or competitors entering a new market. If you want to stay in business, you always have to monitor where your industry is developing to and decide where to go." (External CFO, Case 19)

Other three reasons for internationalizing to China and India and related to growth opportunities are *market attractiveness, low competition* and *low labor cost.* The underlying objective is to achieve sustainable growth for the family firm as it provides opportunities for all family members.[18] Growth is indeed necessary for long-term survival and therefore a structural aspect that is considered a fundamental motive for internationalizing in China and India.

Market Attractiveness is by far the most important motive for the German family firms in the study (50%). The Chinese and the Indian market attractiveness describe the large populations and tremendous economic growth of these countries, creating a lot of potential for German firms. Further, the low level of competition is a central motive for entering these

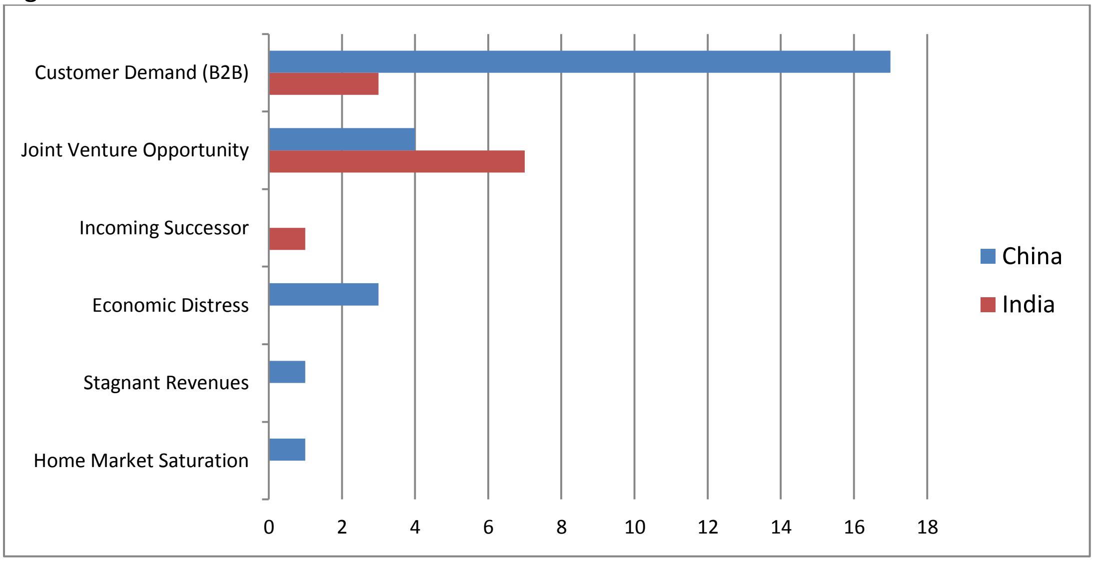
[17] KPMG (2015).
[18] Calabrò, Brogi and Torchia (2015).

markets. Especially, in the knowledge-driven production sector, German family firms often face no or only a few local competitors as most Chinese and Indian manufacturers still lack the knowledge, quality and experience to represent a serious threat in those industries. Finally, low labor cost in these developing countries, compared to Germany, represents an additional advantage not underestimated by almost 25% of German family firms internationalizing to China, but not acknowledged at all as a motive to internationalize in India.

3.1.2 Situational motives

Internationalizing in China and India can also be triggered by situational motives, meant as trigger events[19] at the market-, firm- or family-level. Among the situational motives described by the German family firms in the study, as shown in Figure 5, customer demand and market saturation are acknowledged as relevant drivers at the market-level, stagnant revenues, economic distress and joint venture opportunity at the firm-level and the incoming generation involvement at the family-level.

Figure 5: Situational motives to enter China and India



Source: Own elaboration

For German family firms *customer demand* has been the most important trigger to enter the Chinese market. Global players in automotive, infrastructure and transportation industries have demanded geographical proximity in these large markets to strengthen cooperation in R&D, reduce risk of delays and supply difficulties.[20] Noncompliance would jeopardize not only business in these markets, but negatively affect also customer relationships in the long-term. Hence, for over 50% of the interviewees, investing in being locally present in China was enforced by their customers. For only three family firms in our study customer demand has been the most important trigger to enter the Indian market.

[19] Ibid.; Colli, García-Canal and Guillén (2013).
[20] Harwit (2001).

"We have had China and India in mind for some time. It was impossible not to consider these markets in the past 20 years. But we really decided to go when one of our main customers moved there. Then we had to go!" (CEO, owning family, Case 29)

Almost half of the German family firms in the study have accounted *joint venture opportunities* as a central reason to enter especially the Indian market. These opportunities emerged from existing partnerships with businesses in India, participation in business fairs and industry-specific gathering events bringing together German and Indian firms. With respect to China, joint venture opportunities mainly emerged from governmental requirements on large public infrastructure projects. In fact, in order to participate in these public tenders, German family firms had to form a joint venture with a Chinese partner which had to detain at least 50% of the shares.

Stagnant revenues and *economic distress* have been considered triggers for German family firms to start internationalizing in China. Some interviewees indicated that China allows for a quicker realization of profits and an easier entry, due to Chinese as well as German government support and funding programs.[21]The slow economic growth in Germany and Europe has led to *home market saturation* and pushed many German family firms to enter the Chinese market.

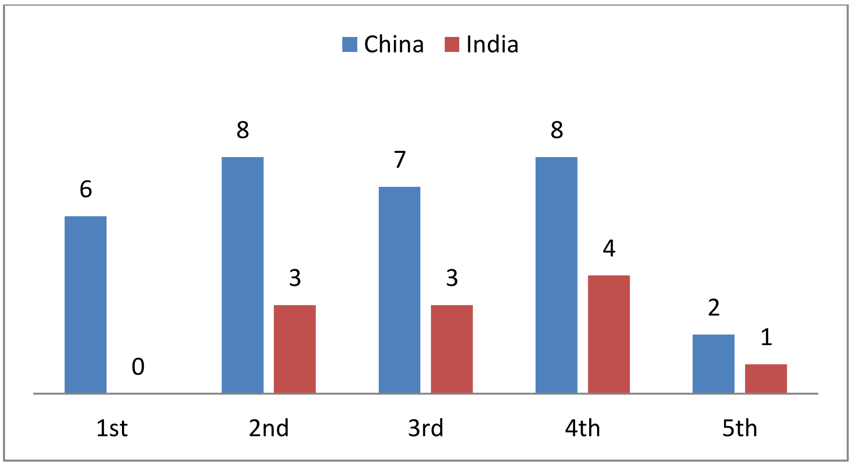
Finally, the involvement of family successors can trigger the internationalization in China and India. Successors are often involved in developing new markets in foreign countries, especially to learn how to lead a business and develop their ability to become the next CEO.[22]

"***For me this was an opportunity to enter the family business as it was clear I could not enter into its German part."*** (MD India, owning family, Case 21)

Figure 6 offers interesting insights on which generation has taken the decision to internationalize in China and India. While almost 20% of the study participants internationalized in China when the first generation was leading the firm, 25% (9%) moved to China (to India) under the guidance of the second generation. Moreover, 55% (25%) of the interviewed family firms internationalized to China (to India) under the guidance of the third or later generation.

[21] Ibid.; KPMG (2015).
[22] Schlippe and Kellermanns (2008).

Figure 6: Generation in charge when internationalizing to China and India

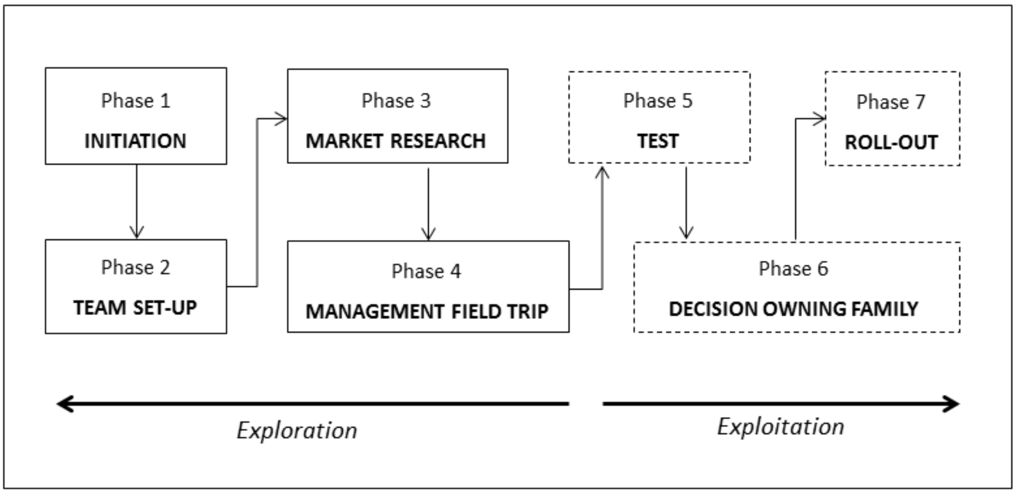


Source: Own elaboration

3.2 Decision-making process

For all the German family firms analyzed in the study at hand, entering a complex market such as China or India is a decision that has been taken at the top management team (TMT) level and with the approval of the family shareholders. Different aspects, such as the geographical and cultural distance from the home market (Germany), uncertain markets and industry trends and degree of new investments in human and financial resources, have been considered in the decision-making process. Figure 7 shows the consecutive phases characterizing the decision-making process to enter China and India.

Figure 7: Consecutive phases of the decision-making process to enter China and India



Source: Own elaboration

Phase 1 – INITIATION

The first phase of *initiation* usually starts with TMT members bringing the topic of entering China and/or India to the attention of the rest of the group. This initiative often comes directly from family TMT members (see Figure 8).[23] In some cases family members, in their

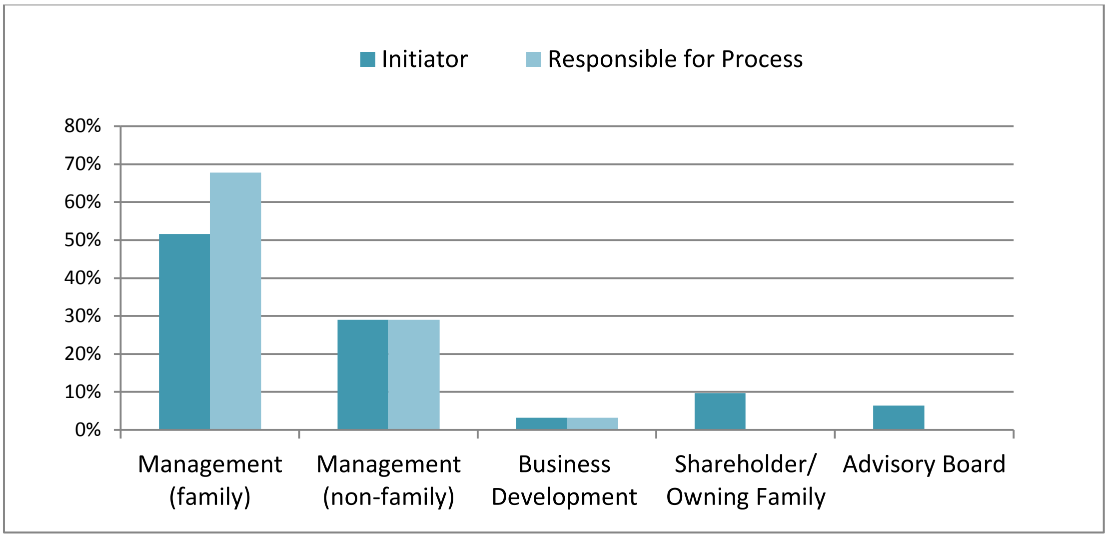
[23] Calabrò et al. (2016).

role as owners or as members of the advisory board, can bring this topic to the attention of the TMT;[24] however, the responsibility of the process lies with the TMT. In 30% of the analyzed family firms the process was initiated and further managed by non-family TMT members.

Phase 2 – TEAM SET-UP

Top managers (family and non-family) in charge of internationalization set-up a dedicated project team with employees from sales, export and R&D departments that already had experience with the foreign market. This team identifies needed information and the channels to access it.

Figure 8: The main initiators and responsible for the decision-making process



Source: Own elaboration

Phase 3 – MARKET RESEARCH

Market research is conducted to validate the feasibility of the strategic idea. Instead of engaging in broad market analyses, family firms are more likely to trust the vision of the entrepreneur and leverage their existing international network to gather the information that is needed to take further decisions. Key business partners are generally selected in this phase.

Phase 4 – MANAGEMENT FIELD TRIP

There is a tendency to directly establish personal contacts with actors in the target market through management field trips (especially when a family top manager is responsible for the strategic decision). Family members value personal relationships and contacts more than the mere use of intermediary (non-family) persons; they often decide to do at least one *exploratory trip* to China or India often also with other family members and key employees. These field trips aim to: a) understand structures and mechanisms of the market; b)

[24] Calabrò, Mussolino, and Huse (2009).

understand the local business environment; c) take final decisions of collaborations with potential partners; d) develop personal relationships; and d) get a personal feeling about the local culture.

"We traveled around China to meet potential customers and understand how we could adapt our products and services to their needs. In China it is important to have personal meetings. The Chinese will not talk about business with lower level sales persons, .they want to deal with the top management and the owning family." (CEO, owning family, Case 14)

Phase 5 – TEST

In the test-phase key partners in the respective country engage in product/service testing to get evidence on sales dynamics and better understand customer needs. Dealing with Chinese and Indian key partners already at this early stage has helped German family firms build trust-based business relationships, reciprocal commitment and development of shared goals. The most suitable entry modes as well as the match between product/service characteristics and customer needs are assessed in this phase. The majority of family firms in this study does not develop alternative scenarios; instead family managers prefer to develop one strategy and commit to it assessing the amount of maximum affordable loss[25] in case the operation would fail.

Phase 6 – DECISION OWNING FAMILY

In this phase, the experiences and results from the explorative phases (1-4) and from the first exploitative phase (5) are reported to the family owners who will give (or not) their final consent. When some family members have either been promotors or following the process from an early stage on, the owning family has always supported the strategic move to China and/or India.[26] In fact, the owning family has been an active supporter in 52% of the cases, initiator through family TMT members in 32% of the cases, initiator through family owners not involved in management in 6% of the cases and completely neutral in 10% of the cases.

Phase 7 – ROLL-OUT

The roll-out plan is then initiated by the TMT starting the complete internationalization process in China and India. In the majority of cases, regular feedback meetings – usually informal – were held with the owning family to discuss the development of the process.

3.3 Sources of strategic information

Having reliable sources of information to take the decision whether and how to enter the Chinese and/or the Indian market has been assessed to be extremely important for the

[25] Sarasvathy (2001).
[26] Pukall and Calabrò (2014).

family firms participating in the study. Two major sources of information have been identified:

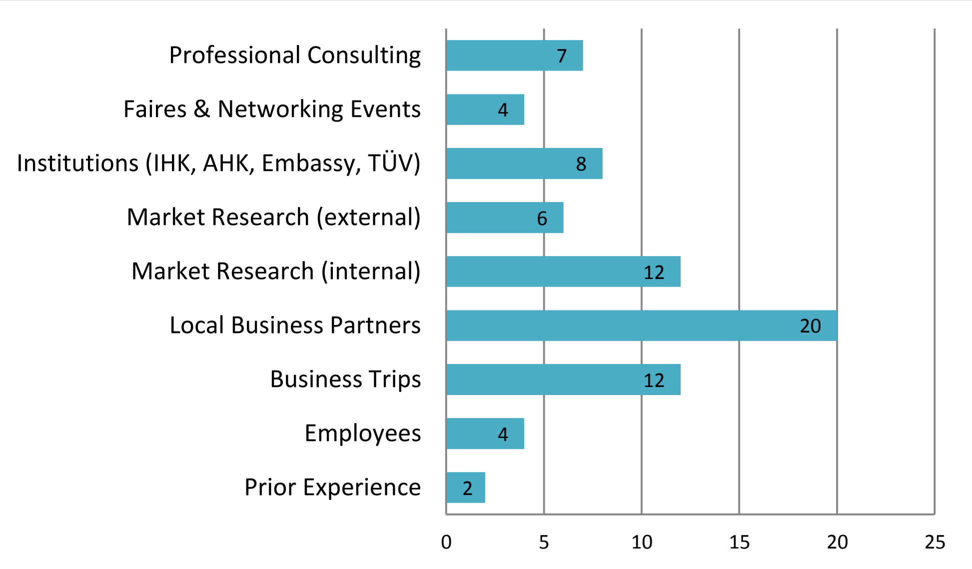
- **External sources**
  - Professional consulting
  - Fairs and networking events
  - Institutions (Chamber of Industry and Commerce,[27] German Chamber of Commerce, Embassies)
  - External market research

- **Internal sources**
  - Internal market research
  - Local business partners
  - Business trips
  - New employees
  - Prior experience

In more than half of the cases, external sources of information have been used for the internationalization processes to China and/or India (see Figure 10). Seven family firms reported to have hired or worked with *professional consultants* before internationalizing to the respective markets, including cooperation with institutions such as the DEG.[28] Especially, the family firms using the professional service of DEG have appreciated the long-term nature of the professional relationship. Among the family firms that have not used professional service it is common to experience a general aversion to include outsiders in important strategic decisions. Many also think that the costs and time incurred by using professional services are not proportional to the quality of advice they will receive in return. There is also a reluctance to participate in *fairs and networking events* as well as consulting with public institutions. Being these strategic decisions extremely important, family decision-makers are rather secretive, at least until the decision to enter these foreign markets has been taken. *External market research* has been generally considered unnecessary, because it is often generic and superficial and not considering specific family firms' features (in the six cases where external market research was used, the overall satisfaction was very low).

[27] Industrie- und Handelskammer.
[28] Deutsche Investitions- und Entwicklungsgesellschaft.

Figure 9: Sources of information used to prepare the internationalization process



Source: Own elaboration

Internal sources of information are always preferred with 38% of the study participants relying on *internal market research* (through specific internal task forces mainly using information gained from internet, newspapers, practice reports or federal statistical offices). Personal networks with *local business partners* were also important in gathering information as indicated by 64% of the study participants (see Figure 10).[29] Local business partners were identified mostly through export or supplier relationships over decades and were seen as the most trustworthy source of information. Field trips to the respective countries to understand the business environment have been assessed to be a valuable way to gather information to understand customer segments and sales dynamics (38% of the family firms).

"We had previous exporting experience in China and an idea of the product we wanted to launch, thus we started setting up a subsidiary as we thought we knew the market well. But we went there to verify our opinion, and we came up with a different product for that market. Hence, we changed the entire strategy after that trip." (Family CEO, owning family, Case 27)

Only few firms specifically recruited new *employees* to leverage on their background and significant knowledge of the Chinese market to facilitate the relationships between the headquarters and the subsidiaries in China. Those employees were either originally from China and studied in Germany or Germans who had lived in China for a significant time period and were able to communicate in Chinese.

Information is also gathered from family and non-family members' *prior experiences*. In particular, in one case the predecessor had already attempted to enter India decades ago, but failed. The learnings from that experience were useful when the next generation entered the market. In another case, the non-family Chief Financial Officer had been in charge of the internationalization to China in his prior employment. Although that had no relevance when

[29] Kampouri, Plakoyiannaki and Leppäaho (2015).

he joined the family firm, this experience turned out to be important later as it provided valuable insider knowledge and access to a reliable network.

3.4 Location choice within China and India

Family firms have to decide where to locate their business activities in China and India. Whereas some location choices are bound to customers' demands, others (e.g. where to locate production sites and offices) need to be identified by the family firms. Table 2 summarizes the criteria used by German family firms to identify the locations within China and India.

Table 2: Criteria used to identify the location within China and India

Criteria	Factors
Access to infrastructure	Road network in/ around location Proximity to port Proximity to international airport
Access to network	Proximity to suppliers and customers Community of German companies Presence of international institutions
Cost/ Tax advantage	Labor cost Land, buildings, plants Special economic zones
Quality of life	Standard of living Schooling and university access Leisure opportunities and culture

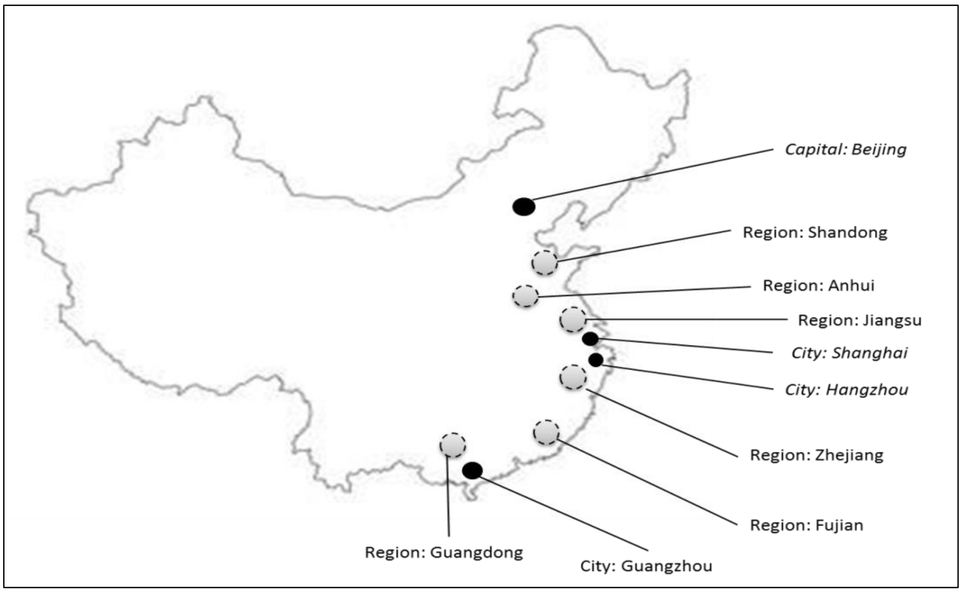
Source: Own elaboration

For all the interviewed family firms *access to infrastructure* is the top priority when choosing a location in China and India. Both countries have been struggling with developing their infrastructure. While within the main economic hubs the infrastructure has seen great developments in both China and India, difficulties still arose in the suburbs with the connection to airports and harbors. However, China has seen faster advancements especially in the road network surrounding the large cities of Shanghai and Beijing, which have received large investments in the past decade.[30] Due to the proximity to the harbors, the economic hubs have mainly developed in the Eastern part of China (see Figure 10). Until the early 2000s most companies were based in Shanghai and its suburbs or in the area of Beijing. Especially the southern areas of the eastern coast have faced tremendous growth, as Figure 10 shows, and Guangdong has become one of the key economic regions in China within just 15 years.[31] Wage increases in the hubs around Shanghai and Beijing made these southern coastal areas highly attractive for foreign firms willing to open subsidiaries. The political interest of having foreign companies opening up facilities in China and fostering international trades has led to the establishment of *Special Economic Zones*,[32] in which

[30] Li & Fung Research Centre (2010); Harwit (2001).
[31] KPMG (2015); Procher, Urbig, and Volkmann (2013).
[32] Organization for Economic Cooperation and Development, "Economic Reports."

companies had tax reductions and benefits in specific industries (see Table 3). Along with these economic developments, there are also high living standards and education systems.

Figure 10: Industrial centers in China



Source: Adapted from Li and Fung Research Centre (2010)

Table 3: Industrial centers and their main industries in China

City/ Region	Main Industries
Capital: Beijing	Politics, R&D, heavy industries, metallurgy, automobile
Shandong	Textile, clothing, transportation equipment, steel pipes, crop protection machinery
Anhui	Household appliances
Jiangsu	Electric wires/ cables, electronics, IT, ship building, energy, wood processing
Shanghai	Electronics, chemicals, textiles, steel, automobile
Hangzhou	Steel structures, boxboards
Zhejiang	Electrical appliances, clothing, commodities
Fujian	Sport clothing, food, jade, Chinese furniture, children's wear
Guangzhou	Automobile, electronics, petrochemicals
Guangdong	Machinery, electronics, clothing

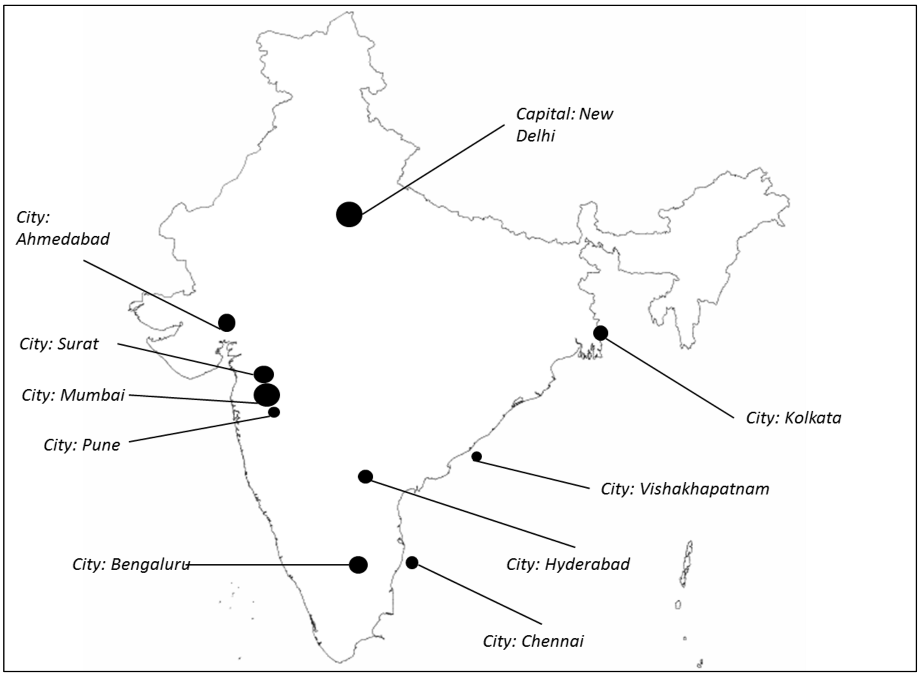
Source: Li & Fung Research Centre (2010)

In India, the economic hubs are spread across the country and located around the largest cities (see Figure 11). There are no governmentally enforced development programs as in China.[33] The location choice here is highly dependent on infrastructure, whose developments are severely slow and proper road networks in the suburbs, fast connections between the large cities as well as airports have yet to be established. Mumbai is the economic capital of India, home to many multinational companies, and the largest harbor in

[33] Kaminsky and Long (2011).

the country, handling 70% of all transactions.[34] New Delhi is the political capital with the largest number of political and public sector employees. Further hubs are Kolkata and Bengaluru, well known for the IT industries, and Hyderabad, i.e. the “capital” of the pharmaceutical industry (see Table 4). Whereas these five largest cities are rather well-known, there are about 100 economic centers around the country.[35] Additionally, Pune is on the rise and highly relevant for this study, as the automotive industry is mainly located there. Thus, the location of a branch in India is highly dependent on the industry and peer-group as well as the network the family firm has access to.

Figure 11: Industrial centers and their main industries in India



Source: Adapted from Kaminsky and Long (2011)

Table 4: Industrial centers and their main industries in India

City/ Region	Main Industries
Capital: New Delhi	Politics, electronics, home consumable, home textiles, leather, metals and minerals, plant and machinery, pharma
Ahmedabad	Pharma, denim, gems, jewelry
Surat	Diamonds, textile
Mumbai	Petrochemicals, automobile manufacturing, metals, electronics, engineering, food processing, light manufacturing
Pune	Electronics, chemicals, textiles, steel, automobile
Bengaluru	IT, software engineering, aviation, R&D
Chennai	Automobile, software services, medical tourism, hardware manufacturing, financial services

[34] Brar et al. (2014).
[35] Ibid.

Hyderabad	*Genome Valley of India*: Pharmaceuticals and R&D; Tourism, IT
Vishakhapatnam	Steel, fishing, shipping IT
Kolkata	Petrochemicals, electronics, IT; iron and steel, metallurgical and engineering, textile, leather, food, medicine

Source: Kaminsky and Long (2011)

In sum, German family firms internationalizing in China and India have diverse motives and different approaches to their decision-making. Every case of this study followed its unique way to enter these countries. The underlying motive for family firms is to secure transgenerational survival of the firm. Once decided, German family firms overcome the reluctance to enter these culturally distant and economically risky countries, committing in the long run. Furthermore, the process of taking the decision is largely based on personal contacts and visits to the target countries. Family firms invest in internal market research and direct experiences within these markets. In fact, several of the study participants admitted to have taken the decision based on a "gut feeling" and a set of heuristics that allowed controlling an uncertain future, relying on a continuous support of the owning family. By setting a maximum affordable loss when entering a foreign market and building a strong local network, successful family entrepreneurs were able to preserve their flexibility to react to unpredicted scenarios thus being able to meet local demands even in difficult markets such as China and India.

4. The internationalization process to China and India

While in the previous section we have discussed the factors considered by family firms to enter the Chinese and/or the Indian market and the underlying decision-making process, the section at hand focuses on the different entry modes in these international markets. Furthermore, we also discuss the role that cultural differences between Germany and China/India had on the entry modes decisions of the German family firms and their financing options. Finally, future expansions within China and/or India – if any – are further examined.

4.1 How do German family firms first enter the Chinese and/or Indian market?

It is generally acknowledged that family firms are prone to engage with local partners when entering new markets due to their limited access to resources and risk averseness.[36] Since the entry mode choice is seen as crucial for a successful internationalization and its impact on overall firm performance,[37] it is of highest importance to understand its antecedents. All the family firms in the study engaged in activities which required low commitment in terms of human capital and financial investments in China and India before engaging in a more significant investment. For instance, several family firms have been exporting their products prior to the market entry; some opened sales offices in the test-phase to learn more about their customers. Two of the family firms analyzed in this study have had long-term relationships with distributors in China. Hence, these experiences have preceded the decision of a specific entry mode.

"In India our export manager started with a first contact in India and then developed new relationships. We started with a sales representative and then decided to produce in India. We looked for collaboration with an existent business partner, which is still a joint venture partner today." (CEO, owning family, Case 17)

4.1.1 Potential forms of market entry

This section reports the different entry modes chosen by the analyzed German family firms to enter China and India, mainly focusing on international activities that require a higher commitment than exporting and establishing sales offices. Moreover, the market entry modes are discussed separately for China and India as the markets have some key differences that have to be taken into account.

Prior to entering international markets, family firms often engage in international activities with a lower level of commitment in form of export and/or sales representatives.[38] Family firms can thus establish initial customer relationships and better understand how to adapt at best their products/services to the foreign market. Figure 12 summarizes the benefits and drawbacks associated with this entry mode. The success of these low commitment activities and the accumulated knowledge and learnings are often the basis for the subsequent decision of whether continuing or not with further investment in the foreign market.

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[36] Kuo et al. (2012).
[37] Brouthers and Nakos (2004).
[38] Johanson and Vahlne (2009).

Figure 12: Export activities and sales representative offices prior to market entry

<u>Export activities</u> Export activities refer to goods and services produced in the home country and shipped overseas to foreign customers **<u>Sales representative offices</u>** Sales representatives in the target country organizing export activities and managing distributors and/or customers	**<u>Benefits</u>** • Low commitment/ low risk • Low investment needed • Building initial customer relationships • Market research for subsequent market entry	**<u>Drawbacks</u>** • Expensive (transport/taxes) • Extensive supply period • Low flexibility in orders • Limited new costumer access • Limited market knowledge

Source: Adapted from Calabrò and Mussolino (2013) and Larimo (2013)

Entering an international market with foreign direct investments can be achieved either by setting-up a new wholly-owned subsidiary (WOS), thus doing a *Greenfield investment*, or by buying an existing building structure *(Brownfield investment)*. Both ways require a large (and riskier) investment, offering in return a stronger local presence for networking, proximity to suppliers and customers and full control of the operations (see Figure 13). Whereas Greenfield investments give to the owning family full control of the process and the possibility to build a foreign subsidiary that is completely tailor-made, Brownfield investments, i.e. buying a building structure already existing in the foreign market, may be preferable for the family firm. However, cross-border M&As, compared to Green-/Brownfield investments, give to the family firm not only infrastructural benefits but also the opportunity to leverage on an existing network and market knowledge that a new fully owned subsidiary cannot access easily.

Figure 13: Market entry through Green-/ Brownfield investments and M&A

<u>Green- / Brownfield investment</u> FDI to enter a new market with a WOS by building all operations (Greenfield) or by buying an existing building structure (Brownfield)		**<u>M&A activities</u>** FDI to enter a new market with a WOS via an acquisition or a merger to benefit from existing structures, employees, knowledge and networks	
BENEFITS • Tailor-made • Full control of operations • Flexibility in supply • High customer relationships • Local network access • Proximity • Access to market knowledge	DRAWBACKS • Extensive preparation face • Large investment • High risk • Foreign local environment • Finding suitable employees	BENEFITS • Full control of operations • Flexibility in supply • Existing customers and network relations • Experienced employees • Market and product expertise • Existing brand	DRAWBACKS • Finding a suitable target • Large investment • Integrating business cultures • Integrating product portfolios • Overcoming resistance among employees and customers • Integrating existing knowledge

Source: Adapted from Makino and Neupert (2000) and Nagano (2013)

The last option is forming a joint venture (JV) with a local partner as described in Figure 14. The most common way of creating a joint venture consists of sharing both risks and the return on the investment made by two or more organizations to develop a joint business activity.[39]

[39] Family firms in this study have only formed equity JV.

Figure 14: Market entry through an Equity Joint Venture

(Equity) Joint Venture	Benefits	Drawbacks
A JV is a company created by two or more parties to conduct joint business activities. The JV partners share risk/return according to the ownership structure and modify responsibilities according to their needs	• Medium investment • Trusted local partner • Knowledge of business • Knowledge of industry Access to network • Access to customers Market knowledge	• Finding a partner • Building trust • Knowledge transfer • Risk of opportunism • Future diverging interests

Source: Killing (2012)

From 1979 to 2001, it was mandatory in China for most industries to transfer knowledge and equity within the country when foreign firms were planning to enter the market. Forming an equity JV was a legal obligation with only few exceptions.[40] Since 2001, the regulation has been revised and authorities approved the possibility to enter through WOS in most cases. Exceptions are knowledge-intense industries or public projects, for which only Chinese firms can be commissioned. In the case of India, there are no specific obligations on how foreign firms must enter the market; however, a capital inflow is often required as well. Forming a JV has several benefits for entering such culturally distant markets, ranging from overcoming the language barrier to entering existing and already developed networks.[41] Nevertheless, finding the right partner imposes a major challenge as well as agreeing on contractual details and on the future development of the joint venture.

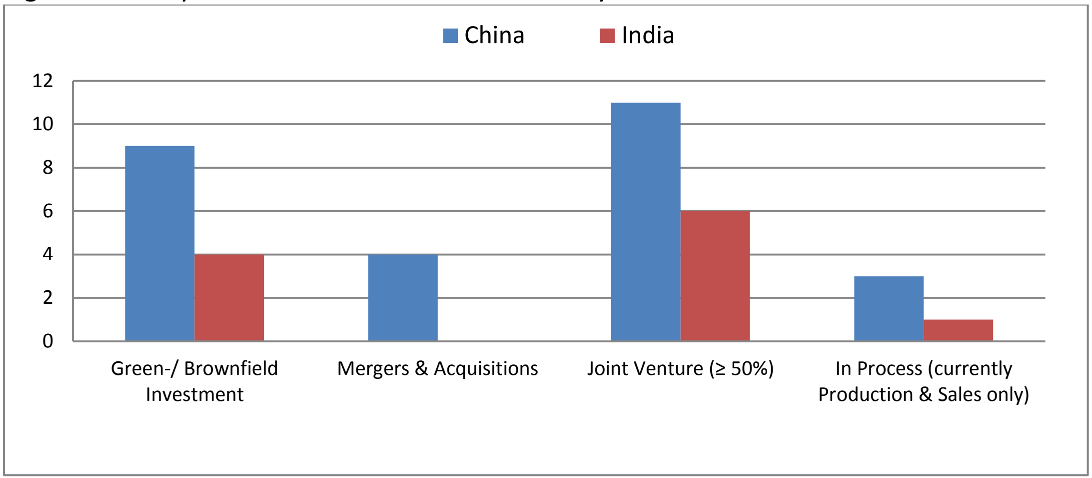
4.1.2 Market entry mode choices of German family firms

All of the study participants started off with minor exporting activities to China and India before entering them. In most cases, the family firms had a distributor in the respective countries selling small amounts of their products. Additionally, the majority of family firms in the sample opened sales offices in China in the late 1990s and early 2000s, hiring a local sales agent or sending an expatriate there. In the latter case, the decision to enter China had already been taken and the sales officer was part of the test-phase which had the main aim of better understanding the market. While only two family firms are currently planning to enter the Chinese market through entry modes requiring higher levels of international commitment, all other family firms in the study have already entered the Chinese and/or Indian market through FDIs. Indeed, family firms are slightly more likely to engage with foreign partners in joint-ventures or buy an existing firm when entering foreign markets for the first time.[42] Figure 15 provides an overview of the entry modes chosen by the 31 German family firms for their first international move into China and India. Specifically referring to China, 47% of family firms have entered the market through Green-/Brownfield investments, 39% through equity joint-ventures, 14% through M&A and the rest is still in the planning phase. With reference to the Indian market, 45% of the family firms have entered the market through Green-/Brownfield investments and 55% through equity joint-ventures. Substantially, in both markets the preferred entry modes are Green-/Brownfield investments

[40] Harwit (2001).
[41] Killing (2012).
[42] Kuo et al. (2012).

and equity joint-ventures, because of financial restrictions, risk averseness and language barriers in both countries.[43]

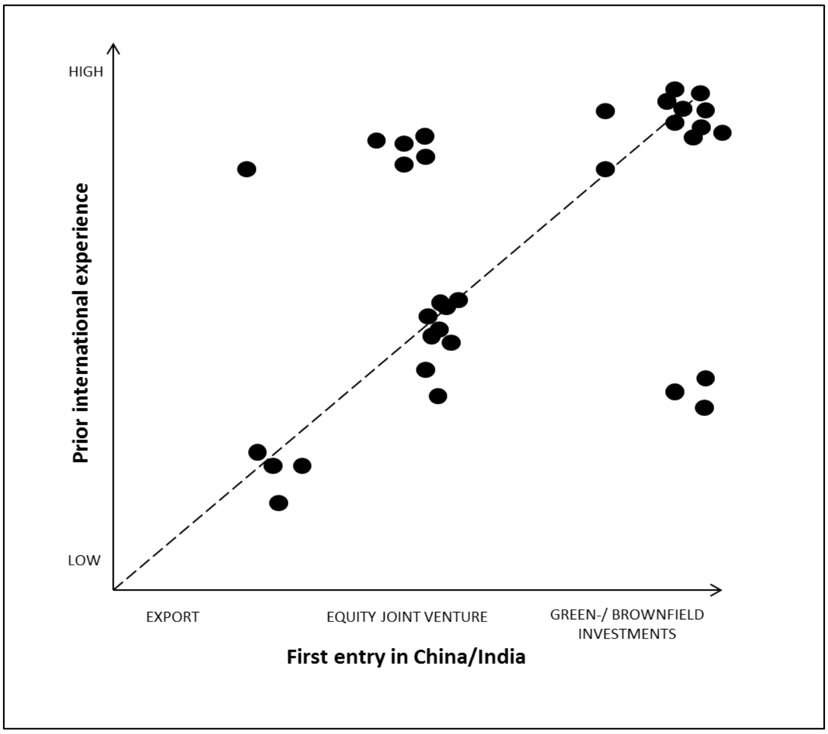
Figure 15: Entry mode choices at time of first entry in China and India



Source: Own elaboration

As Figure 16 shows, German family firms, with prior international experience gathered through Green-/Brownfield investments in other countries, have chosen a Green-/Brownfield investment also as the first entry mode in China and/or India.

Figure 16: Prior international experience and first entry in China/India through Green-/ Brownfield investments



Source: Own elaboration

Conversely, family firms with less prior international experience have entered mostly through JVs. However, as already mentioned, especially in China family firms were

[43] Makino and Neupert (2000).

previously also obliged to form a JV with a Chinese firm if they wanted to enter a specific market. Within our study participants, out of three, legally obliged to form a 50:50 JV with a state-owned Chinese firm, only two finally succeeded.

"We couldn't set-up our own subsidiary as the government would not approve it. So we had to find a suitable Joint Venture partner to enter the market and we worked really hard on that, but in the end it did not work out for us." (CEO, owning family, Case 1)

4.2 Factors influencing the entry mode decision

There are many external as well as internal factors, influencing the decision to enter China and India, which highly depend on the business environment and specific family firm characteristics. Six factors have been identified as affecting entry mode choices of German family firms:

- Family firm policies
- Prior experience
- Cultural differences
- Existing networks
- Financing resources
- Non-financial resources[44]

FAMILY FIRM POLICIES

These policies include the set of written and un-written rules, influenced by the owning family, which affect the finance, the ownership and the management as well as the branding strategies. Despite most those rules are not written down, all main decision-makers within the family firm (family and non-family members) are aware of them.[45] The study has revealed that family firm policies may affect internationalization practices. For example, many family firms have stated that forming joint ventures with foreign partners was limited for two main reasons: a) every investment should be fully controlled by the owning family (*family control loss aversion*); and b) the family reputation has to be preserved (cooperating with international partners might put it at stake). In some cases, it was possible to do equity joint-ventures but at the condition that the owning family had the majority.[46] With regard to internationalization, several cases revealed policies that restricted the use of external funding (e.g. loans from banks) or cooperation with financial institutions to finance their growth, constraining the propensity to engage in complex international operations.

[44] The family firms participating in the study have been prioritizing these factors differently.
[45] Calabrò and Mussolino (2013).
[46] Lin (2012).

"According to our family financial policy, all loans have to be paid back in two years. In 2018, we aim to reduce all loans to zero (also in our international subsidiaries)."
(External CFO, Case 7)

Hence, the reluctance to consider external financing and consultants slows down the internationalization processes. Nevertheless, relying on institutions offering financing and market expertise represents a good option to realize successful international moves.

PRIOR INTERNATIONAL EXPERIENCE

Notwithstanding its positive or negative outcome, prior experiences provide key learnings in terms of specific market knowledge and entry mode choices.[47] Positive prior international experiences influence the overall degree of risk perceptions the family decision-makers have when entering new markets. It provides the family firm with confidence on the entry modes choices and the belief that the family firm has already acquired a set of capabilities that will support further internationalization steps. It is interesting to observe that among the German family firms in the study, prior negative international experiences have a major impact than prior positive international experience on subsequent internationalization activities.

"We had experience with a Chinese business partner, which was not loyal regarding know-how rights. They exploited us brutally and this is why we do not need to do this experience twice. So we will not enter China." (External CEO, Case 10)

CULTURAL DIFFERENCES

Entry mode choices are significantly dependent on cultural differences between the home and the host country. Some German family firms in the study suggest that the equity joint-venture is the most appropriate entry mode since the cultural difference (between Germany and the host countries) is so high that it is not possible to design successful entry strategies without having a local partner in China and/or India or being part of an existing and functional network.

[47] Forsgren (2002).

"We did not want to do it without a partner, because we do not know how the Indians work or what their culture is. How to organize production, how and where to hire which people, we just have no feeling for that in India. That is why we established a joint venture, a 50:50 one, so we can also share the risks." (External CEO, Case 10)

Other family firms instead state that sometimes the cultural difference is so high that the only feasible way to enter the market is through a wholly-owned subsidiary (WOS), which grants full control over the investment.

"We never considered the Joint Venture option. We did not want to end up in a situation that our partner just steels the know-how and starts its own business with our knowledge. This was never an option." (External CEO, Case 30)

The main areas in which cultural differences are more visible are: language, business culture, local culture and the role of governmental institutions.

Language – The language is the first large barrier when internationalizing to China. Nevertheless, it is possible to overcome it through trustworthy translators. In India, the language barrier is slightly less apparent, as the educated class usually speaks English. Further, both Chinese and Indians speak diverse dialects across regions, so that they often do not understand each other. Hence, when setting up a business and hiring employees, language imposes a big challenge.

Business culture – Business culture is extremely different in China and India compared to Germany. The first principle in China as well as in India is trust. The trust building process can take a long time, but once it is established it can be considered more important than any written contract. Trust is needed to build relationships both with business partners – especially with JV partners – and with customers.[48] The trust-building process often involves many activities unrelated to business, which should be attended not only by managers but also by their families and the owning family.[49] Personal relationships and networks – called *guanxi* in China – are the lifeblood of conducting business in China (and also in India) and play a strategic role with suppliers and customers as well as with financial and governmental institutions.[50] The concept of *guanxi* has no negative connotation and simply describes the concept of being on one's side, although it can be challenging and disadvantageous for German family firms. Indeed, they have to be very careful in managing these networking activities with local partners and institutions as key information may be inappropriately disclosed due to a different understanding of being in a trustworthy relationship.

[48] Pant and Rajadhyaksha (1996).
[49] Ibid.
[50] Davies et al. (1995).

"Once I told one of my Chinese partner details of a new invention. Later on we met with some Chinese bank directors and after several drinks they asked questions on that invention, telling us that our "trusted" Chinese partner told them everything." (CEO, owning family, Case 22)

In India, family gatherings and close familial relationships with business partners have an even higher importance than in China. For German family firms it is crucial to understand those as integral aspects of the business culture and define to what extent the family firm can adapt.

Local culture – The local culture plays an important role in entry mode decisions. There are, indeed, some dimensions of the Chinese as well as Indian local culture, which are not easily visible to foreigners.[51] If ignored, they can become a burden for German family firms. The caste system in India is one of these culturally unique challenges. It prohibits people from higher castes to work with people from lower castes. In China, the strict adherence to hierarchies often prohibits employees to speak up when needed, thus it is important for German family firms to create a working environment allowing feedbacks from lower hierarchical levels in order to gain insights and ideas from their Chinese workforce.

"Our [German] engineers were in China to train the Chinese. We had a translator speaking Mandarin during the whole stay (6 weeks). He translated everything, nobody [within the Chinese group] was objecting! Weeks later, we found out that most of our Chinese employees did not speak Mandarin and did not understand a word." (Former CEO, Case 12)

Of special interest for German family firms is that in Chinese and Indian local culture family firms are highly valued as a form of organization.[52] However, it is important to take into account that both cultures tend to follow the principle "family first", which might clash with the German family firms' "business first". Finally, Chinese and Indian employees have a high appreciation for training and education opportunities, which German family firms can leverage to prevent frequent workers turnover, especially in China.[53]

Role of governmental institutions – Governmental institutions play a significant role especially in the starting phase of international business activities in China and India.[54] Governmental institutions normally manage permits, assign or sell land, enforce or forbid JV formations, grant access to special networks and have a "voice" in M&A activities. Many German institutions such as the German Chamber of Commerce or the "TÜV Rheinland" offer support to German firms to reduce their dependence on these governmental institutions.

[51] Pant and Rajadhyaksha (1996).
[52] Binz et al. (2013).
[53] Gold and Guthrie (2002); Karan and Selvaraj (2008).
[54] Procher, Urbig, and Volkmann (2013).

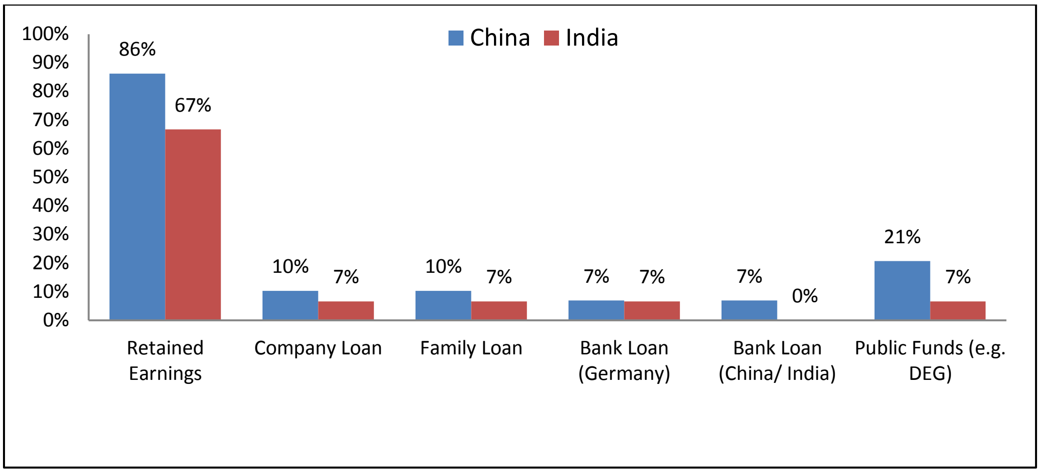
EXISTING NETWORKS

Family firms in the sample often relied on advice and support from their German network of family firms and customers already present in China and/or India. Hence, having a large network in the home market offers an opportunity to gather information and benefit from trusted partners.[55] However, being part of an existing Chinese and/or Indian network also influences entry mode decisions. In particular, having existing local customers reduces the risk of entering a new market as certainly future revenue streams already exist and there are feasible opportunities to create new contacts, identify better access points in those networks and facilitate the relationship building process with local authorities. Especially, the selection of partners for JV is usually done by exploiting existing networks of customers and suppliers in the respective markets.[56]

FINANCING RESOURCES

Financial resources are used in a very conservative way by German family firms, which show an overall tendency of keeping expenditures to a minimum.[57] However, those resources are of high strategic relevance in the entry mode choice, as some modes are more capital-intense than others (e.g. establishing a WOS, acquiring an existing international firm). The German family firms in the study mainly used forms of internal financing (e.g. retained earnings) instead of external sources of funding (see Figure 17).

Figure 17: Financing resources to support market entry in China and India



Source: Own elaboration

Few family firms relied on a bank loan, either from German banks or local banks in China and/or India. The latter option is usually considered for daily banking activities or when local bank cooperation has been enforced by the local government.

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[55] Eberhard and Craig (2013).

[56] Ibid.

[57] Calabrò, Brogi, and Torchia (2015).

"You are basically dependent on the authorities, [which] can enforce that you take money from local banks. Of course this is what the Chinese want, as [in that way] they support their banking sector as well." (External CFO, Case 7)

The local authorities often suggest a specific amount that has to be invested through FDIs by the foreign firm. Depending on the industry and the district, the investment can also be in machines, know-how or cash. This is an interesting option for German family firms as they can also benefit from tax reductions and sometimes from public subsidies within specific industries. There are also several family firms whose headquarters or owning family supported with direct loans the foreign subsidiaries in order to retain complete control over the international move, thus keeping the entire risk internally. Finally, it is relatively new for family firms (only few cases reported this experience) to apply for public funding programs which favor the international move to developing countries. To be more aware of the available funds and support programs to internationalize in China and India, it can be highly beneficial for family firms to cooperate with specialized institutions in Germany, as they often have a broader knowledge and network in the target country. The strategic evaluation of the role that financial resources (internal and external) might have on entry mode choices has to be considered already in the design phase of the market entry strategy.

HUMAN RESOURCES

Human resources include actual employees, potential employees and family members.[58] When assessing the strategic role of human resources for the implementation of entry modes into foreign markets it is important to understand if the family firms have already family and non-family employees which have specific knowledge, skills and personal interests, which might be useful to better enter the target market. Family firms can thus leverage on human resources to gain better access to the foreign language and a better understanding of the target country. Following that logic, interesting human resources are employees having connections and ties to China and India already, knowing the foreign language and the culture. As reported by many family firms in the study, it is common to look for internal employees (with specific Chinese and/or Indian knowledge) and then involve them in different positions in the JV or in the WOS. Furthermore, the role of upcoming successors can be strategic in setting up new business activities abroad. They are often in charge of building-up new branches in China and India for different reasons: a) training/proving their managerial skills and capabilities; b) finding new growth opportunities for the firm and the family; and c) providing trusted, quicker, and informal communication channels.

"We tried entering India several times and it never worked! After three failed attempts, my grandfather and I got to the conclusion that we needed a trustworthy person – a family member – who was entirely dedicated to India." (MD India, owning family, Case 21)

[58] Ruzzier et al. (2007).

4.3 Further expansion within China and India

Many of the family firms in our study have further expanded their activities within China and India after the first entry. Some have replicated the initial strategy, especially in India. However, in other cases, the experience gained through previous international entries changed their initial assumptions and led them to consider alternative entry modes. Figure 18 summarizes three different scenarios which show in which way the German family firms in the study have changed their entry mode strategies in further expansion within China.

Figure 18: Changes in entry modes during further expansions in China

Joint-venture → WOS	**WOS → Acquisition**	**WOS → Joint-venture**
▪ JV is formed ▪ JV is dissolved ▪ Buy-out of Chinese partner ▪ WOS is established	▪ WOS is formed ▪ Acquisition of Chinese firm ▪ New firm is created	▪ WOS is formed ▪ WOS is turned in JV

Source: Own elaboration

From joint-venture to WOS

The opportunity to pay out the Chinese partner and take full control of the business has been leveraged by 45% of the German family firms in the study. The reasons behind the end of the joint venture were different, such as diverging interests between the parties, breaches of contractual arrangements and lack of trust. However, the German family firms had in most of the cases already established a good position in the local network, good connections with local authorities and had built strong customer relationships.[59]

"The Chinese JV partner built a factory right next to our common JV, but we were not allowed to enter. He said it was a different company, but during that time we were always short in orders. Months later, my children managed to go into the building and saw our product everywhere. We finally sold him out." (CEO, owning family, Case 22)

The experience gained during the JV phase was fundamental to give the German family firms the confidence to further operate in China without a local partner. Accumulating knowledge of the Chinese market and getting better to the local network have been key strategic capabilities allowing the family firms to commit in more resource-intensive entry modes.[60]

[59] Johanson and Vahlne (2009).
[60] Ibid.; Forsgren (2002).

From WOS to the acquisition/ merger of/ with Chinese firms

Among the study participants, 8% started operating in China through a WOS (Greenfield investment) and subsequently had the chance to either acquire a local competitor or merge with a Chinese firm operating in the same industry. The main reasons to move from a WOS to alternative ways of operating in the Chinese market were: a) the lack of a solid customer base; b) the negative trends in the expected returns; and c) the barriers in entering existing local networks. M&A activities were thus useful to fill those gaps and bridge the cultural gap in developing strategic relationships to be successful in the Chinese market. In case of acquisition of another Chinese firm, the owning family was able to preserve full control over the investments, but needed to invest financial resources to complete the operation. In the case of merger with another Chinese firm the owning family had to incur in costs and actions aimed at reaching a good level of cultural integration in the post-merger situation.

From WOS to joint-ventures

The last group of family firms (23% of firms in the sample) decided to switch from WOS to joint-venture as they further expanded within China. There are two sets of reasons for this choice. First, in order to participate in public projects, German family firms had to legally form a joint-venture with a Chinese partner (usually a state-owned firm). Second, some family firms had serious problems in getting access to relevant customers and networks through their WOS; hence, they had to look for local partners and turned the initial WOS in a joint-venture.

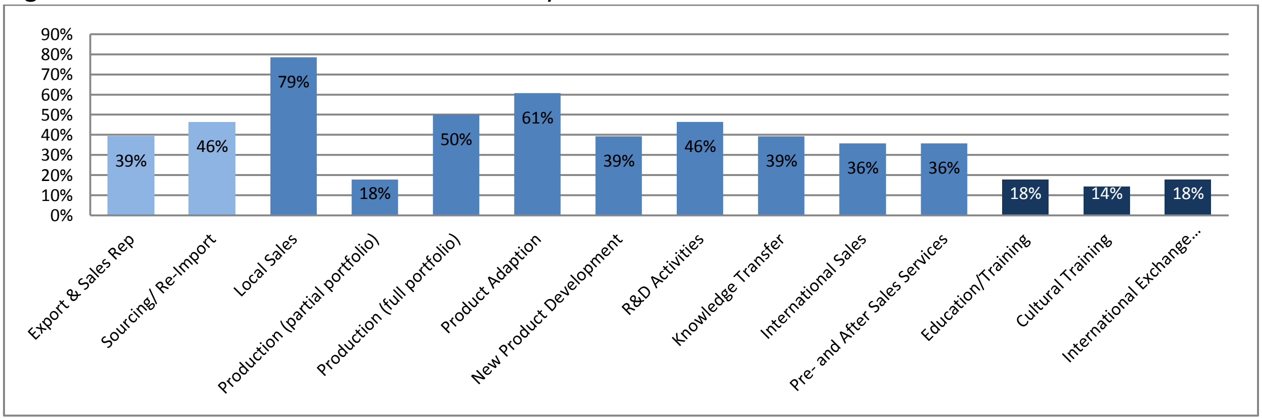
5. Main activities of German family firms in China/India in 2016

German family firms in this study have successfully managed to position themselves in these foreign markets. The section at hand focuses on the activities that German family firms implemented in China and India in 2016 to understand their current positioning. At first, the business activities are outlined – separately for China and India, followed by a section on human resource activities (e.g. recruiting, training, management team composition). At last, the networking activities, highly important in these cultures, are described.

5.1 Business activities

Business activities range from exporting to R&D. Figures 19 and 20 provide an overview of these activities, respectively, in China and India.

Figure 19: Business activities of German family firms in China



Source: Own elaboration

It is interesting to observe that 46% of the German family firms in the study that are active in the Chinese market, are also still involved in sourcing and especially re-import activities, i.e. buying materials and producing in China, then selling these products in the German home market. This so-called extended workbench in China, however, has its roots in the 1990s and early 2000s when labor costs were low and import/export taxes affordable.[61] Nowadays, most German family firms are focusing on Chinese customers, investing in local production and sales. The sourcing and re-importing in Germany is decreasing due to the increased cost of production on the one hand, and to the punitive tariffs imposed by the Chinese government on the other hand. Furthermore, 46% of the interviewees reported that their firms also engage in R&D activities in China and actively transfer knowledge to the respective Chinese branches. This finding contrasts the prevailing opinion that knowledge has to be kept in the German headquarters, as the Chinese are not trustworthy and the existing limits of the intellectual property (IP) legislation. However, several German family firms transfer knowledge as this is necessary to develop products that suit the Chinese market. Further, IP protection is not a legal but a cultural problem. Actually, the legislation on IP protection is very strict in China, but copying a product/service is considered to be a glorification of the product itself and not a crime. The German mindset is completely different, thus leading to conflictual situations. Nevertheless, several family firms report that German original products are preferred over the copied ones.

[61] Lager et al. (2014).

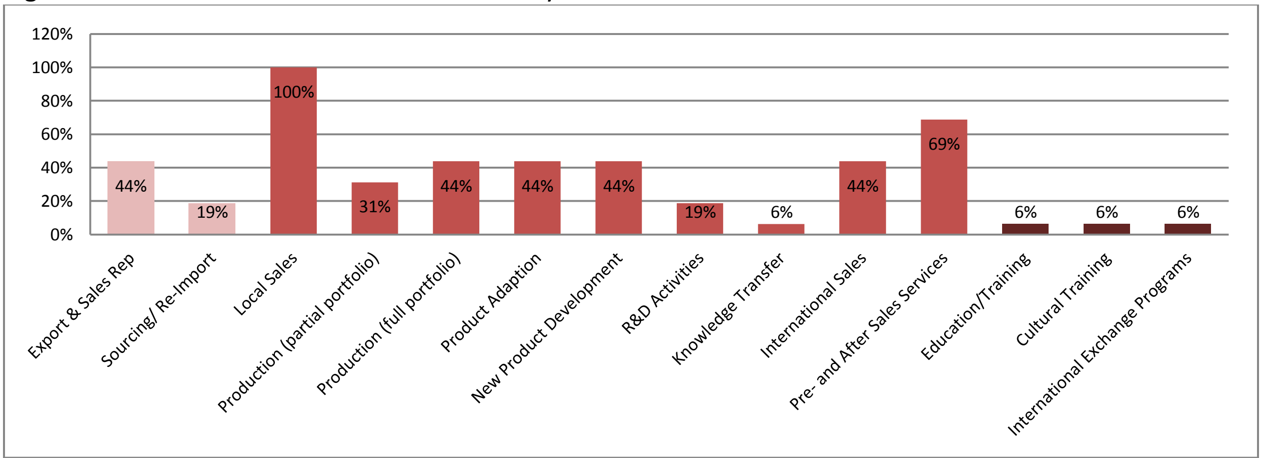
"They can copy your product as much as they like. As long as we are better the Chinese customers will prefer us. Our pre/after sales service is a unique selling point." (Family CEO, owning family, Case 15)

Moreover, as local markets are growing in China the majority of the German family firms has adapted their products to the Chinese customers or even developed new products for them.

"When we decided to form a JV, we decided to select a partner from the eight Chinese competitors which had copied our product. The company that had managed to use our technology and adapt it to the Chinese market in the most innovative way became (and still is) our JV partner." (CEO, owning family, Case 24)

Human resource activities, which are discussed in more detail in the next section, are implemented only by a few German family firms so far. The importance of cultural training, not only in the headquarters but also in the foreign branches, is neglected by the majority. Further, education and training are mainly based in the German headquarters and only slowly being developed in China as well.

Figure 20: Business activities of German family firms in India



Source: Own elaboration

For India, there are no business activities solely focused on sourcing and re-importing to Germany. German family firms joined the market to actively serve the local demand. This is also evident in Figure 20 showing that all family firms in our sample engage in local sales activities. As compared to China, R&D activities and knowledge transfer are rather rare in India. The reasons are the lower tenure German family firms have in the Indian market as well as the instability of the political environment leading to lower investments in India.

5.2 Human resource management

German family firms in this study have reported that hiring and training suitable employees are key success factors both in China and India. The relationship to headhunters, universities and German institutions are fundamental in the recruitment process. Training programs are often offered in Germany or with Germans on site and in cooperation with local universities. Moreover, contracts are designed with incentive systems to strategically keep key employees, especially in China. Four main activities have been identified as being important in the human resource management process:

- Finding employees
- On-the-job training
- Retaining the workforce
- Management team composition

FINDING EMPLOYEES

The majority of employees working in foreign subsidiaries are Chinese workers. There are only few key management positions for which German expatriates are preferred, especially in the initial phases. Overall, German family firms prefer local employees, also in key positions such as engineering and sales, as they have access to local networks and hence are able to acquire customers. Despite of this, finding skilled employees in China and India still remains a challenge. In order to face this challenge, local headhunters are consulted and institutions, such as the German Chamber of Commerce, are asked for support, as they have access to networks of skilled employees. Furthermore, as regard engineers, many of the family firms have set up close relationships with local universities. They have often negotiated special deals to hire a certain percentage of the top graduates in exchange for internship offers and guest lectures. In few cases, the German family firms have set up their own schools as part of the campus in cooperation with the local authorities, to educate specialists in their field.

"We offered vocational trainings in our sector. We built a technology center in Jinan, close to our subsidiary. In that center we taught the basic knowledge about our industry as, without it, they couldn't understand our vision. Learning by doing is important in this industry and it has proven to be a huge success for us." (External Business Development Manager, Case 13)

Once employees are found, they are trained on the job and retained in the company. This is a big challenge in China, as workers are used to change jobs within a day if they get a better offer.

ON-THE-JOB TRAINING

Training, especially for strategic positions, is a key function to develop and retain good employees. There are two approaches to organize training activities: either they take place in Germany and the Chinese and Indian employees travel there; or they take place in China and India, and German representatives are sent overseas. The first approach is preferred to train employees in higher positions (technical and management functions) and mostly takes place in the German headquarters for a time frame of six months up to three years. The second approach is used to train the majority of local employees. During these training weeks, translators as well as local employees in key positions are constantly present to support the German delegation. In addition to technical teaching, these training weeks also aim at improving intercultural awareness and competences.

RETAINING THE WORKFORCE

The majority of employees are simple assembly line workers, receiving a daily wage and have moved to the cities to earn money for their families in the country side. A lot of jobs usually performed by machines in Germany are still completed manually in these countries. The urban centers of China and India are driven by the production sector. Foreign firms locate their subsidiaries in these urban centers and are hence competing for workers. In order to keep them in the company and reduce high turnover, the daily wage needs to be competitive and the working environment needs to offer opportunities to learn new skills. In higher level positions, contracts with proper incentive systems are needed. These contracts are negotiated between the two parties and can include a base salary, bonus payments and other agreements. In addition, training opportunities and developing strong identification with the firm are completing the salary package. Signaling the tradition and values of the family firm is of special value in India and fosters additional employees' commitment. Exchange programs with German headquarters are also part of these contracts as the Chinese and Indian employees have the opportunity to work abroad and better understand the values of the family firm. German headquarters gain internationality, leading to a higher acceptance of foreign cultures and further internationalization.

"Everybody in the firm has to adapt to local behaviors when dealing with these cultures. It is not about giving up on values but rather accepting a different speed on certain issues and thus let go some typical German behavioral patterns. Training and exchange programs help overcome barriers." (External Head of Production/ Business Development, Case 31)

MANAGEMENT TEAM COMPOSITION

Whether the German family firm has substantial influence on the TMT composition at first depends on their chosen entry mode. In the case of a JV, the partner usually provides the local management team due to market knowledge and network access. Regarding the role of CEO for the JV, the family firms in the sample have reported different experiences. Whereas some used dual leadership structures with one German and one Chinese/Indian representative, others chose a candidate that had experience with both, the home and the foreign, cultures. The overall rule is that the person or the team needs to have a good understanding of the German business culture and, at the same time, also being expert in the local market. For M&A transactions as well as other forms of WOS, the composition of the TMT is different across the cases. Overall, the diversity within TMTs is of highest importance as it is often seen as a factor influencing the performance of the foreign subsidiary. Before establishing a foreign subsidiary, the German team is usually in charge of building structures and hiring local employees with proper market knowledge and network access. Once the subsidiary has been established, only a few positions, especially the CFO, are preferably assigned to German expatriates rather than locals in order to keep full control of the finances and being prepared to fulfill the obligations of the German accounting and reporting system. In sum, TMTs are mostly local with a CEO understanding both cultures and a German CFO. When a family member is in charge of the internationalization process, he/she usually takes the CEO position for the time being in China or India.

5.3 Network building activities

Without a proper network access it is unlikely to successfully internationalize in the Chinese or Indian market. In fact, it is not just important to be part of a network, but it is even more important to understand if the position in the network is functional and useful. German family firms can indeed suffer from the "liability of outsidership"[62] that is being within a network, but not having a good position and influence within it. This is especially evident in Asian countries, where personal relationships are the key component of business practices. Hence, German family firms have to leverage the existing networks they already have and actively engage in networking activities to create business opportunities in the Chinese/Indian market via personal or business networks. Personal networks are relations and contacts created through family and friends; often these networks are used to collect preliminary insights and initial contacts in a potential new market. Business networks are relationships acquired through business activities, ranging from long-term supplier relationships to acquaintances met at fairs, for example. These business networks have often been the starting point for the JV partner selection. Contacts and conversations of other nature are mostly unplanned, but are frequently providing relevant input to consider new market opportunities. Overall, the business activities in China and India of the German family firms at hand show a high level of vertical integration and a focus on the local markets. None of the family firms is solely engaged in sourcing; hence using these countries, especially China, as an extended workbench. Due to the liability outsidership, a lot of effort is directed towards the training of local employees and the access to local networks. A high level of local integration is seen as vital for long-term success.

[62] Johanson and Vahlne (2009).

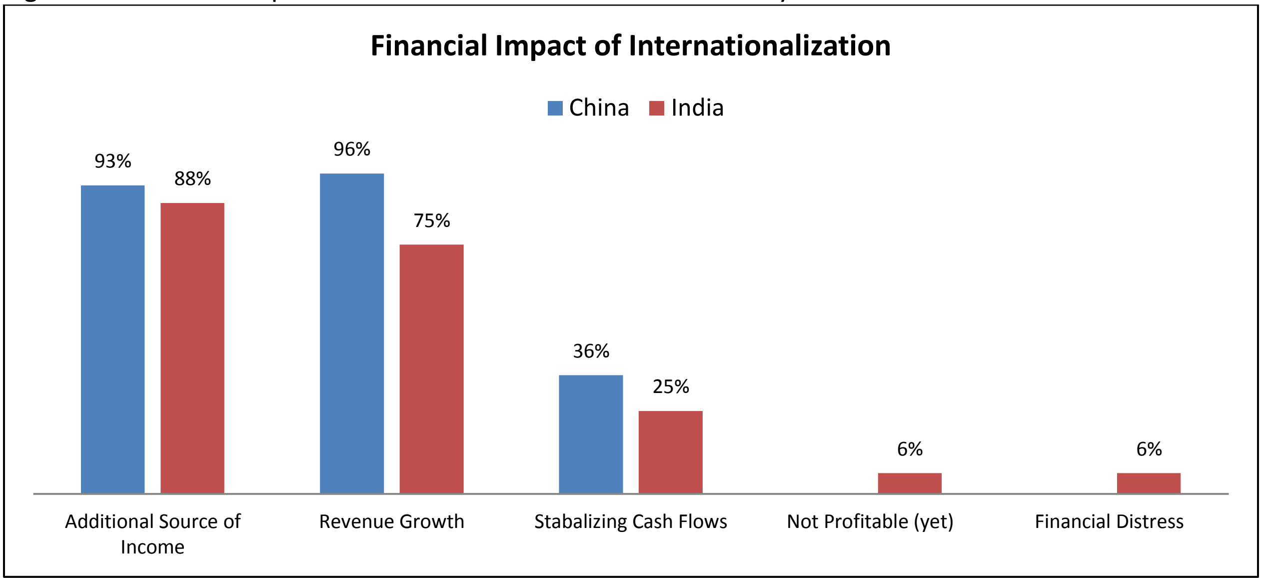
6. Outcomes of the internationalization process

The outcomes of internationalization processes are diverse. On the one hand, internationalization influences the financial performance of the family firm. It provides a new stream of income, growth opportunities and offers a steady cash-flow when balancing economic up- and down-turns around the world. On the other hand, it influences the culture of the parent company and its business strategy. As this report has been focusing on family firms, the influence on the owning family is discussed as well.

6.1 Financial performance

The German family firms in the study have reported the financial benefits they associate with internationalization. Almost all firms report growing revenues and accordingly an additional source of income as a result of their internationalization to China and India (see Figure 21).

Figure 21: Financial impact of international activities on the family firm



Source: Own elaboration

Stabilizing cash flows due to the diversification of countries has been reported especially during the economic downturn of the Western countries after the financial crisis of 2007/2008. The economic distress could partially be balanced by the income streams from China and India. Furthermore, this circumstance encouraged intensifying the involvement in these markets to leverage the risk of further economic downturns in the Western countries due to the unstable financial situation of several Eurozone countries. However, there is also one case reporting to have made no profits and another one to have incurred severe losses in India; both interviewees explained that the main reasons were related to the unstable political environment and the lack of public investment in infrastructure. In both cases, they had contracts for large public projects and they were already in the process of supplying resources and capacities to their subsidiaries, when the projects were put on hold by the new government.

6.2 Impact on the family firm and the owning family

Internationalization does not only affect the people involved in the process, but the entire company. Especially family firms have a very strong sense of identification and shared values with the family firm and the owning family. This is deeply rooted in the culture of the parent company and that culture is tremendously affected by internationalization. Entering markets such as China and India, which are culturally distant and completely unknown to most employees in the parent company, represents a challenge in terms of personal values, work ethics, openness and education. From the sample cases, three core changes have been a direct result of internationalization in China and India for both the family firm and the owning family:

Family firm values

The internationalization process can influence family firm values. Often, family firms have not undergone many internationalization attempts, especially not to such culturally distant and unpredictable markets. The cultural alterations range from openness towards new cultures up to questions on ethical behaviors. The family firm values and also the existing governance structures have to be reconsidered in light of the new challenges and business environments the Chinese and Indian markets present.

Workplace diversity

Internationalization makes the family firm a diverse workplace to which German family firms, often located in small towns, are not used to. The level of exposure to foreign cultures depends on the level of integration within the subsidiary. It can range from telephone conversations in English, exchange programs for Chinese/Indian employees spending time in Germany, or German employees in China/India. The aim is also to foster personal bonding and enable international team work.

Family firm attractiveness as employer

A high degree of international activities, especially in emerging markets increases the attractiveness of the family firm as an employer. Especially, high potential graduates are very keen in gaining international work experience and thus prefer an employer that can offer these opportunities. Further, they are used to travel and work in international teams and are hence requesting these characteristic for their job position.

Internationalization can also have a direct impact on the owning family which can be assessed along three main directions:

Expand cultural interests

Doing business in China and India often requires business trips, actively involving operative and non-operative family members to meet potential business partners. These trips are also used to bring along potential successors to introduce them to the local business practices and partners. Furthermore, they can be combined with personal cultural interests, as traveling in Asia and learning about its cultural differences.

Employment opportunities

Internationalization also provides new employment opportunities for family members. It offers unique opportunities for potential successors to build a subsidiary in a foreign country as well as to learn and prove his/her managerial skills.[63] This option can be highly beneficial to the overall succession process as the scope of responsibility is well defined. Moreover, it widens the pool of job opportunities for any family member wanting to gain experience in these markets. These opportunities range from internships to full-time positions.

Risk attitudes and perceptions

Internationalization also affects the overall risk attitude and perceptions of the owning family. Especially, in case of a positive internationalization experience within China and India, the overall risk averseness is reduced. Also negative experiences with key learnings have the same effects and might lead to openness towards other developing countries as well. The most commonly mentioned future markets of interest were Brazil and Mexico. Africa is discussed as potential target by the German family firms in the study that are active in India, as India has always been considered – historically and geographically – "the gate to Africa".

To conclude, the outcomes of the internationalization processes to China and India have been very positive for the German family firms in the study, with direct and indirect effects on the firm but also on the owning-family. The impact on the owning family, especially on incoming generations, offers great opportunities for the development of successors and the future internationalization of the family firm.

[63] Calabrò, Brogi, and Torchia (2015).

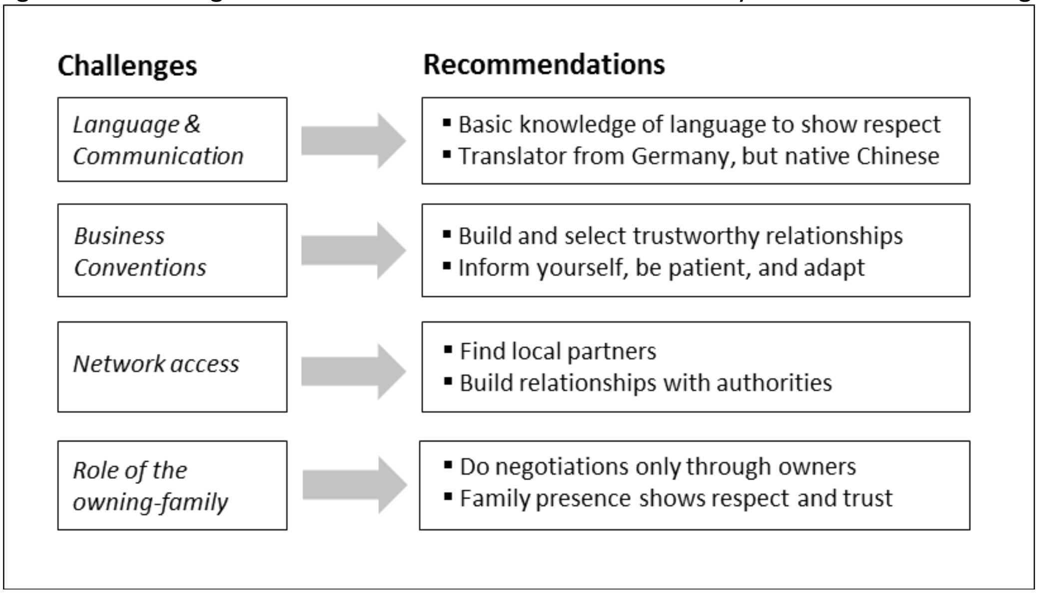
7. Challenges of internationalizing family firms to China and India

Internationalizing into distant foreign markets imposes challenges to family firms. The higher the geographical and cultural distance between the home and the host country, the more complex the internationalization process. By focusing on the international behaviors of German family firms in China and India, the study at hand presents the key challenges those firms face when entering and operating in those markets and different recommendations to address them. Due to differences between the Chinese and the Indian market, the following sections discuss challenges and recommendations separately for each of them.

7.1 Challenges and recommendations for German family firms internationalizing to China

Four key challenges as well as an outline of recommendations have been identified for German family firms internationalizing to China (see Figure 22).

Figure 22: Challenges and recommendations for German family firms internationalizing in China



Source: Own elaboration

All German family firms that internationalized in China indicated the *language and communication* barrier as the most severe one. This is also exacerbated for family firms operating simultaneously in different parts of China due to the existence of numerous dialects. The strategic relevance of the Chinese language is even stronger if it is considered that only highly educated business people speak a sufficient level of English. Therefore, only relying on English as main communication channel can be unreliable and inefficient. In order to overcome this challenge many interviewees have suggested the importance of knowing few and basic spoken words in Chinese that might be especially useful during meetings and negotiations. In addition, signaling interest in the Chinese language and culture is often highly appreciated and is a good start for a business relationship. For the actual conversations and negotiations, a professional translator is indispensable. Translators should ideally be able to translate from Chinese to German, be native Chinese and have lived in Germany for a few years. Moreover, it seems that it is better if the translator does not have any direct link to the Chinese involved in the specific negotiation, as Chinese have a strong sense of solidarity with each other. Hence, it is better to hire the translator in Germany.

The differences in *business conventions*, especially the concept of *guanxi*, represent a major challenge for German family firms internationalizing in China. *Guanxi* describes the tradition of personal relationships between business partners and with authorities.[64] The way business is conducted in China would be seen as highly unprofessional and nepotistic in Germany. However, to build long-lasting business relationships, it is important to adapt and "play by their rules". To be able to deal with these differences, without creating a conflictual situation, preparation is important, especially in terms of knowledge and understanding of business conventions. Therefore, German family firms have to be aware that the most important aspects of a business relationship are trust and trust building. Hence, one can expect extended leisure activities, dining and drinking without negotiating business. Especially the extended dinners and alcohol consumption are part of the Chinese business culture and almost impossible to avoid. Once the Chinese have established a trustworthy relationship, they will "start talking about business". It is thus highly recommended to be patient and do not push the Chinese partner before they are ready to do so.[65]

Having the right *network access* and being part of it are indicators of business success in China. Trust and personal relationships are the lifeblood of these business networks; hence, to find local partners and develop close relationships with local government officials is necessary in China. Without a good (connected and respected) local partner it is unlikely for foreigners to grow a successful business. Once a person or a firm is part of a network, personal relationships have to be built and maintained over time. Moreover, joining networks of German firms in China is also very helpful, especially when dealing with the political elite. In this way a shortcut to the political networks is often possible. For German family firms it is important to define beforehand which type of relationships and networking activities within China could clash with governance rules the family firms has and follows in Germany (e.g. consequences against bribery, doing personal favors not apparently linked to the business). Another recommendation is to develop close relationships to lawyers who are well-connected in China, but also aware of the German legal system.

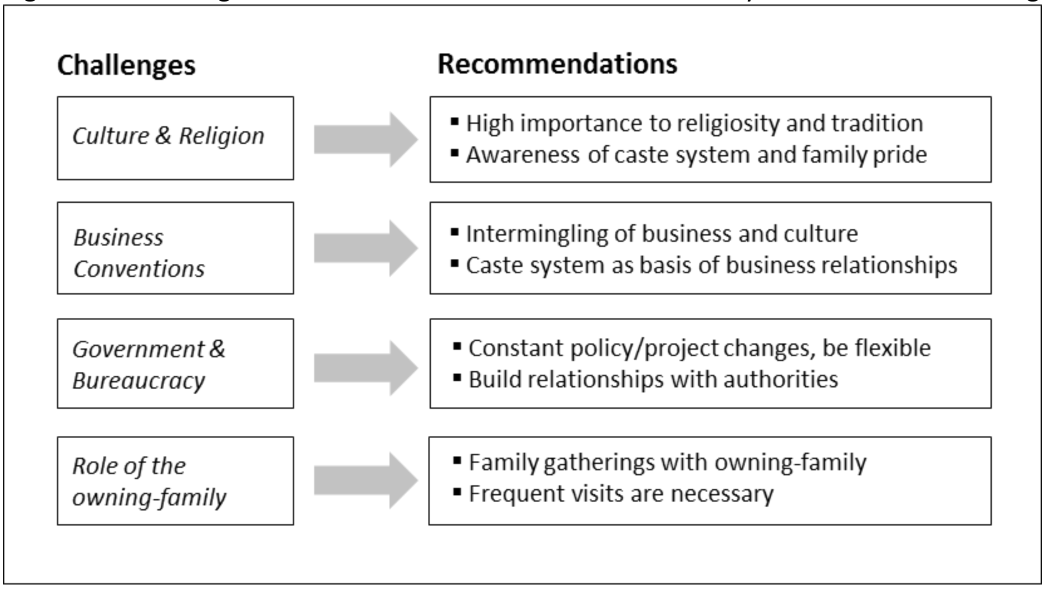
The fourth challenge is the *role of the owning-family* when internationalizing in China. The business culture in China evolves around family membership and ownership as opposed to formal positions or titles in a firm. The practical implications for German family firms mainly regard the chief negotiator in business negotiations. The person in charge needs to be either from the family or be part of the shareholder group when establishing a business relationship. This is a key difference to Western countries, where the hierarchy is decisive and not the social status in the owning family. The same logic applies the other way around: decisions and agreements can only be expected to be valid when agreed upon with somebody from the owning family. Moreover, the role of the family extends not only to the owning family, but also to the families of the employees. Visits of their families to China and vice versa are highly appreciated and seen as an indicator for trust.[66]

7.2 Challenges and recommendations for German family firms internationalizing to India

Four key challenges as well as an outline of recommendations have been identified for German family firms internationalizing in India (see Figure 23).

[64] Tsang (1998).
[65] Reuvid and Yong (2006).
[66] Gold and Guthrie (2002).

Figure 23: Challenges and recommendations for German family firms internationalizing in India



Source: Own elaboration

As opposed to China, the key challenges in India are *culture and religion* rather than language, as English is one of the official languages of the central government. This does not imply that all Indians speak English: there are 122 languages in the country and English is not among the most common. However, the level of English among authorities and educated business people is sufficient enough to avoid the use of a professional translator.[67] The major challenge in India is religion and especially its caste system. All key challenges for doing business in India somehow originate from this social clustering.

"There is one saying, either you hate or you love it in India. And for me it was very important to be very clear that I will not hate it, because if you are not comfortable in India, you better leave as you will not be able to achieve anything." (MD India, owning family, Case 21)

In India, the system of social stratification still regulates all kinds of social interactions and forms the basis of education and employment opportunities even today, despite its origin in 2000 BC. There are four castes in the Varna system and one independent caste for the native population, not being bound to the rules of the Varna system.[68] Although India has undergone tremendous social changes and economic advancements, the four Varna castes are still relevant. The two lower castes are for simple workers – the *Shudras* – (at the bottom), followed by farmers and merchants – the *Vaishyas* – in the second caste. The two higher castes include civil and military servants as well as often today's economic elite – the *Kshatriyas* – and the academics and religious leaders – the *Brahmanen* – at the top.[69] By birth, Indians are part of one caste and despite some positive discrimination acts for lower

[67] Mallikarjun (2004).
[68] Ambedkar (2016).
[69] Mabbett (1977).

civil servant jobs and university education, these castes are still very impermeable. Originating from this system, family pride and social status are the most important aspects of the Indian culture. In the economic hubs, the importance of the castes is slowly fading and economic success is partially replacing it, but as a foreign firm planning on entering the Indian market, understanding this aspect of their culture is indispensable as it governs the daily life and will govern the hierarchies within the business the German firm aims to set up.[70]

"In India you find the religious problem with the caste system. They are not allowed to talk to each other, or do not want to talk to each other. So you do not only have the language problem within the country, but also the caste and religious differences."
(Former CEO, owning family, Case 12)

The caste system also influences *business conventions* as business relationships as well as personal relationships are governed by the hierarchies among the castes. Whereas this does not directly influence the relationship between the German and Indian business people, it influences the relationship with authorities and Indian business partners as well as employees. Hence, being aware of which caste one is dealing with is vital to do business in India, from contract negotiations to employment – the hierarchies among the castes influence all business interactions, as for example disagreements or contradicting opinions cannot be shared in the presence of higher caste members.[71] Moreover, the role of the family is at the heart of most Indian businesses. Family firms are very common in India and doing business with family firms from abroad is highly appreciated. As the status of the family is linked to the success of the firm, the access point for German family firms to the Indian family is unique and favored.[72] Often, the relationship between the families is used to ensure the alignment of goals in business relationships and is of more value than any written contract.

Additionally, the religious leaders are members of the highest caste making them very respected and influential in the Indian society.[73] For German family firms, it can be highly beneficial to focus not only on the direct business environment but also on local religious organizations and its leaders to gain status and network access.

"We have a close relationship with a monastery in India. That's how relationships look like there; they are not really business-oriented." (Family CEO, owning family, Case 22)

Furthermore, large social gatherings are highly important for members of the higher castes. Attendance of the owning-family as well as of key decision-makers from the firm is expected. With these events, the Indians display their social standing and honor the foreign partner, in

[70] Lakshman (2015).
[71] Ambedkar (2016).
[72] Pant and Rajadhyaksha (1996).
[73] See above.

this case the German family firm. Often business deals are discussed and sealed during these gatherings. Similar to China, there is a culture of personal relationships, but more prevalent in the public sector than in the private one.

"Once I was told: you come from a very lucky country! And I asked: why? He told me you and your country have been focusing 95% on work. In India, you have to focus 70% on relationships, and if you do not do that, you can spare the working time at all." (MD India, owning family, Case 21)

The third challenge in India is related to the role of *governments and bureaucracy*, in particular the governments' unreliability and their tremendous level of bureaucracy.[74] Local authorities are highly ranked in society, are part of the societal elite and, thus, good relationships are required to be in their favor. Similar to the concept of *guanxi* in China, personal relationships to people in high positions in the government increase the likelyhood of support. Moreover, the level of bureaucracy in India is very high and without personal relationships to local authorities, also renting a building could take years.

"The Indians have inherited the bureaucracy from the English and perfected it." (CEO, owning family, Case 17)

The German family firms in the study at hand showed two opposing views: those facing years of paperwork and negotiations before starting their activities in India, on the one hand, and family firms that mainly invested in relationship building and networking and report very efficient and professional structures, on the other hand. In addition, due to the democratic and highly complex political system, there are often changes in power and policies. German family firms have made the experience of singing contracts for projects in the public sector that have been put on hold for years, or reforms in the tax system that have been announced but still not been implemented. Thus, being active in the Indian market requires a high level of flexibility with business activities independent from public funds.[75]

At last, being a German family firm also has "special" consequences for doing business in India. Due to the predominant *role of the owning-family* in India as well as their long tradition of having family firms themselves, there is a high appreciation for that form of business. Hence, family firms are the preferred partner for Indian family and non-family firms. Due to the strong relational ties Indians build with the owning-family they are in business with, the relationship is used as insurance for the business partnership. However, attendance to social gatherings and frequent visits are necessary to nurture this appreciation of Indian business partners.

[74] Ernst & Young (2015).
[75] Brar et al. (2014); Karan and Selvaraj (2008); Lakshman (2015); Press Trust of India (2016).

Overall, both Chinese and Indian markets impose significant challenges to German family firms concerning their values and business cultures. Governance structures and code of conducts can often clash with the required business practices in China and India. Before entering these countries, German family firms have to be aware of these practices and the potential conflicts with their "German business culture", in order to avoid surprises. Being a family firm has advantages in both markets. Family firms with owner-managers are considered as highly-recognized partners in China; whereas in India, the role of the family and its legacy are central. The owning-family should be present at the early stages of establishing relationships and, only later, professional managers can take over. Keeping in touch with the Chinese/Indian business partners on a personal basis and through frequent visits and invites are fundamental to preserve personal and business relationships.

8. Key success factors and implications for practice

Investigating the German family firms in the study offers a holistic overview of their internationalization strategies and processes to China and India. The market specific insights and key challenges present a unique opportunity to derive practical implications for other German family firms that are planning to enter China and/or India, or are already present in those markets and want to reflect on their current practices.

8.1 Three phases of the internationalization process to China and India

Internationalization can be structured in three key consecutive phases: **preparation**, **execution** and **reflection**. Along these phases, we summarize *key practical insights*, *challenges* and *recommendations*. The preparation phase (see Figure 24) includes all activities which are necessary before the decision of whether to enter or not the market is taken.

Figure 24: Preparation phase

	Key Aspects	Challenges	Recommendations
MARKET RESEARCH	- Gathering market data - Using networks - Personal visits	- Information overload - Trust issues - Language and culture - Family's risk averseness	- Networks for reliable information - Personal meetings with potential partners - Traveling to the country to understand the local culture - Family involvement to balance reservations
DECISION-MAKING	- Open communication - Risk scenario assessment - Involvement of family		

Source: Own elaboration

In the preparation phase extensive market research is necessary. Except the traditional market research channels to gather data the research efforts have to heavily rely on business and personal networks. Personally visiting the target country is of vital importance to understanding the culture and the market. During these exploratory tours, family members are often present and personal contacts with potential partners can already be established. Once all necessary information has been gathered, both the management and the owning family have to decide whether to enter the target market or not. Communicating with all relevant stakeholder groups to ensure their support as well as clearly assessing risks are decisive activities in this phase. Especially, the risk scenarios have to be carefully discussed with the owning family before asking for the final approval.

The key challenges during this preparation phase mainly relate to the overload of information generated during the market research and to trust issues that the Chinese as well as the Indian culture yield. Prejudices are very prevalent among Western cultures and the language barrier, especially in China, increases this distrust. Leveraging an existing network of trusted partners is the key to face these challenges. Existing business relationships with business partners in these markets or a personal contact to another family firm, already active in one of these markets, should be used as a starting point. Furthermore, a personal visit to meet potential partners and develop an understanding for the customers and culture benefits the trust-building process issues as well as bridges the culture gap. The additional challenge is the role of the owning-family in the decision-making process. Open communication and early integration of members from the owning family on the process prevents conflicts during the decision-making phase.

The execution phase (see Figure 25) starts once the decision to enter the market has been taken.

Figure 25: Execution phase

	Key Aspects	Challenges	Recommendations
ENTRY MODE CHOICE	- Strategic fit - Financing options - Cultural fit with the family firm	- Local authorities - Network access - Training local employees - Cultural pit falls	- Careful preparation - Networking in home market and abroad - Trusting local partners - Local training and exchange programs - Cultural education and intercultural teams
SET-UP	- Presence of the owning-family - Local employees - Cultural integration between subsidiary and headquarter		

Source: Own elaboration

The first step is the entry mode choice, which is based on the following elements:

- Strategic plan of the family firm
- Family firm motivation to enter the market
- Existing network position
- Financing options
- Cultural fit

It is very important to carefully consider all options, even though past internationalization processes might have followed a similar pattern, and take into consideration the unique aspects of the Chinese and Indian business environment. Consecutively, the set-up phase starts and the representatives of the family together with the responsible employees execute the process in the local market. Especially the presence of the family to engage in networking activities is a key indicator for success. To set up building structures, apply for permits, hire employees and start business activities, a close relationship to the local authorities and business partners is necessary. Furthermore, early cultural integration between the foreign branch and the headquarters prevents future conflict. The challenges at this stage are the local authorities and networks the family firm needs access to. Depending on the entry mode these challenges are reduced or intensified. With a Joint Venture or an M&A deal, certain structures and networks already exist and can be leveraged. Financing an international move to China and/or India represents a significant challenge and often only self-financing is considered, overlooking the options that public funding and financing institutions offer to perform the execution phase. Further, training the local employees and managing cultural conflict are major challenges and the internationalization success depends on them. Human capital is the most important factor in this phase. Developing trustful relationships with partners and employees, engaging in extensive networking activities and carefully preparing job trainings and cultural exchange programs have been proven to overcome the challenges of this phase.

Just as important as the preparation and execution phase is the reflection one (see Figure 26).

Figure 26: Reflection phase

	Key Aspects	Challenges	Recommendations
ASSESSING OUTCOMES	- Financial outcome - Network affiliation - Market access	- Realizing and admitting mistakes - Strategy adjustments - Managing cultural conflict	- Being honest to oneself - Performance comparison to competitors - Open and clear communication at the firm and the family level
REALIZING IMPACT	- Further internationalization processes - Opportunities for family members		

Source: Own elaboration

Depending on the nature of the business and the chosen entry mode, this phase becomes relevant latest after the first years of business activities. The outcomes of the internationalization process need to be assessed financially at first. Further, the new network position and the level of market access have to be benchmarked to the initial goals of the market entry strategy. Moreover, the benefits of internationalization have to be realized across the family firm to leverage its full potential. Full integration of the foreign business activities at the parent company level and a close relationship between the key departments help to realize the potential the Chinese and Indian markets could provide in future. Additionally, extracting key learnings from the internationalization reduces uncertainty for future processes.

The impact on the owning-family, especially regarding the opportunities provided to family members, has to be actively managed. Becoming aware of mistakes and implementing adjustments to the main strategy are the key challenges during this phase. Furthermore, cultural conflicts are often neglected as they are not directly measurable. Special attention needs to be paid to this issue as it might be the cause of additional conflicts. The recommendations for the reflection phase regard honesty and open communication. The quality of the learning process and the overall success of the internationalization strategy depend on open communication between the responsible managers, the employees and the owning family. Comparing performance levels to those of competitors can help find areas that need improvement and further provide unique insights for possible strategy adjustments.

8.2 In a nutshell: Ingredients for success

All German family firms participating in the study were finally asked to provide the three key ingredients for success when internationalizing to China and India that they would recommend other German family firms currently considering this strategic option. Although 31 interviewee partners were asked that question, only five different factors have been mentioned:

- Local partners/employees
- Networking
- Think local – act local

- Know your customer
- Consistent strategy

LOCAL PARTNERS/EMPLOYEES

Instead of a team of expatriates, German family firms recommend finding local employees and delegating them with a high level of responsibility regarding strategy and leadership. The benefit is intense market knowledge and better chances of gaining network access. In China, it additionally solves the language barrier, as the educated elite are capable of speaking proficient levels of English.

NETWORKING

The Asian cultures value personal relationships and networking more than any contractual agreements and not complying with it will inhibit success in these markets. This is relevant with all stakeholder groups, but special focus is needed with respect to local authorities as well as customers. Many mistakes might be avoided relying on advice and support of German institutions that have built international experience and networks.

THINK LOCAL – ACT LOCAL

"Think local – act local" is a motto that captures the necessary cultural adjustments with regard to business conventions but also to the product/service offered. Understanding the challenges that local employees and customers face, and acting upon them will lead to success in the respective markets.

KNOW YOUR CUSTOMER

Offering the same products as in other markets will inhibit market access and success. It is vital to keep a close relationship with customers and constantly collaborate with them on adapting the product and service offered.

CONSISTENT STRATEGY

Developing a consistent strategy does not only refer to the activities in China and/or India, but also to the overall international activities of the parent company. Internationalizing to markets that are culturally distant and unknown to most employees and family members, leads to a natural reluctance. In order to avoid potential conflicts, it is fundamental to be consistent in the role the foreign branch plays for the overall corporate and family strategy.

Overall, German family firms have offered practical insights based on their positive and negative experiences, which are summarized in three phases to organize, deploy and think over the internationalization process to China and India. They concluded, then, offering ingredients to be successful in these markets.

9. Conclusions

The report at hand has investigated the internationalization strategies and processes of German family firms to China and India. Both markets play a major role for future growth strategies and offer a lot of untapped potential for German family firms that are, indeed, committed to participate in these developments. They are driven by both strategic and situational motives, that make them differently engage in an arduous internationalization process, which spans from gathering the necessary information, to identifying the team, selecting the entry mode and the appropriate location as well as, finally, making a sound and clear-cut decision. Exporting activities have been a starting point for most of the 31 cases at hand, which have further explored these markets. The entry mode strategies have been joint ventures, M&A activities or greenfield/brownfield investments, with a majority leaning towards a joint venture (39% China; 55% India) or a greenfield/brownfield investment (47% China; 45% India). The balance between these two contrasting entry modes reflects the different approaches German family firms chose when entering these markets for the first time. Especially in the German markets, the learnt experience has led some family firms to change their strategy within those markets over time.

The key challenges appear to be consistent among all study participants and partially overlap for the Chinese and Indian markets, as language, religion and culture, especially in terms of business culture, have been considered the most important ones, together with understanding networking and governmental issues, as well as the different role of the family within those contexts.

In particular, with the business cultures that are highly oriented towards personal relationships and require intense networking activities, strong local partnerships as well as trusted local employees, who have market knowledge and experience, are considered fundamental to face those challenges. Specifically for German family firms, the importance of the family in Asia is crucial. The presence of family members in negotiations is an obligation, regardless of their role in the family. Furthermore, building close relationships with the families of business partners is a strategic advantage, as also summarized in the final take-away that the German family firms participating in the study have shared.

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Case	Date of Incorporation	Family Ownership	Current Generation	Industry	Interviewee family/ non-family status	Interviewee position in the firm
1	1885	100%	3rd/ 4th	Engineering	Family	CEO and Successor
2	1968	76%	2nd	Pharmaceutical	Family	Managing Director
3	1926	100%	3rd	Manufacturing	Family	CEO
4	1919	100%	3rd	Chemicals	Family	Management Board
5	1971	100%	1st/ 2nd	Food Processing	Family	CFO
6	1949	100%	2nd	Chemical	Non-family	CEO
7	1935	100%	3rd	Machine Building	Non-family	CFO
8	1970	100%	2nd	Manufacturing	Family	CEO
9	1832	100%	6th	Print	Family	CEO
10	1889	100%	5th	Iron Sheet	Family and non-family	CEO
11	1903	100%	4th	Transport & Logistics	Family	Successor
12	1887	100%	4th	Machine Building	Family	Former CEO
13	1905	100%	4th	Food processing	Family	Successor
14	1984	100%	1st (2nd incoming)	Engineering	Family	Head of Marketing
15	1946	100%	2nd	Engineering	Family and non-family	CEO and Business Development
16	1995	A family group has the majority	1st	Manufacturing	Family	Owner/ former CEO

Case	Date of Incorporation	Family Ownership	Current Generation	Industry	Interviewee family/ non-family status	Interviewee position in the firm
17	1921	100%	5th	Machine Building	Family and non-family	CEO and Business Development
18	1954	100%	3rd	Plastic	Family	CEO
19	1889	100%	3rd/ 4th	Manufacturing	Family	CEO
20	1896	100%	3rd	Construction	Family	CEO
21	1995	100%	3rd	Vehicle	Family	Successor/ MD India
22	1925	100%	3rd/ 4th	Conveyor and drive technology	Family	CEO
23	1883	100%	4th/5th	Composite materials	Family	Advisory Board
24	1898	100%	4th	Metal processing	Family	CEO
25	1799	100%	2nd	Engineering & Construction	Family	CEO
26	1949	Foundation 100%	Foundation	Plastic	Non-family	CEO
27	1966	100%	2nd	Water filtration	Family	CEO
28	1956	100%	1st / 2nd	Engineering	Non-family	Director Legal Department / M&A
29	1919	100%	3rd / 4th	Manufacturing	Family	CEO
30	1972	100%	1st	Manufacturing	Non-family	Head of Production
31	1910	100%	4th	Manufacturing	Non-family	CEO

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