Emergence of Informal Sector Firms in International Business

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The Emergence of the Informal Sector Firms in International Business[1]

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Abstract

This paper highlights the emergence of Informal Sector Firms (ISFs) in international business. Due to increasing size and significance of the informal economy in the global context (particularly emerging markets), we attempt to understand the characteristics and relevance of the ISFs. The globally distributed diamond industry thrives in the atmosphere of secrecy and informality that envelops the diamond trade and has for long been labeled as an unorganized sector of the world economy. However, it resembles a close-knit community, composed of thousands of informal sector firms (ISFs) which exports cut and polished diamonds worth USD 20 billion annually while the collective output of ISFs in an emerging economy (India) enjoys a 95 percent market share of net global exports. It is suggested that due to lack of formal systems, ISFs may be largely influenced by their societal cultures which in turn plays a role in the internationalization of ISFs.

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The Emergence of the Informal Sector Firms in International Business

Introduction

The informal sector contributes significantly to production, consumption, employment and income generation, thus supporting livelihoods as well as output of developing countries, however our knowledge of the sector, its impact and inter-linkages with various economic and social spheres is still rudimentary (CUTS, 2009). The pursuit of global business has traditionally evolved from the perspective of the MNE which is assumed to develop rather predictably from small domestic companies into large, mature, transnational firms (Bartlett & Ghoshal, 1990) over time assuming a likewise organized sector behind the firm's global success. However, international markets are now being viewed as networks of relationships in which firms are linked to each other in complex, invisible patterns which offer potential for building trust and commitment which are essential for internationalization (Johanson & Vahlne, 2009). The 'informal sector firms' (ISFs) which have moved up the value chain in emerging markets and created success stories in the global business arena are likely to make use of the informal relationships which thrive on trust and commitment created through their business networks over several years and the invisible part, we suggest, may be explained by the influence of societal cultures which in turn helps some informal sector firms to become more successful in the global arena.

Due to the increasing significance of the informal economy in international business, we highlight the emergence of the ISFs and attempt to understand their characteristics and relevance to international business. Our interest, indeed what intrigues us, is in these 'new organizational forms' embodied by these globally-distributed ISFs. There are of course anecdotal data however the IB literature is less sanguine about such organizational forms that do not conform to the theory of the MNE. The informal sector has a wide diversity, constantly evolving structure and represents a fundamental component of the structure of economies; informal sector firms are a key form of organization of production of goods and services both in rural and urban areas (ICMISIE, 2009). Earlier, the informal sector was widely defined as unregulated economic enterprises or activities (Hart, 1973); the definitions and characteristics of informal sector have changed with time (see Table 1). There is a renewed interest in informal work arrangements or informal labor markets which stems from the fact that informal work arrangements have not only persisted and expanded but have also emerged in new guises and at unexpected places (WIEGO, 2009).

Research Motivation: The informal economy has traditionally been the subject of economics and labor-related areas but is generally neglected in the management literature and subsequent research.

This we believe is because it is very difficult to gain access to the sector and to collect data. There is high mobility and turnover, seasonality, lack of recognizable features for and reluctance to share information (ADB, 2007). Our primary research objective is to understand the emergence of informal sector firms (ISFs) in international business using case research and this paper attempts to 1) highlight the relevance of the informal sector firms to the global economy and 2) explore the role of culture in internationalization of firms in the informal sector. A globally-distributed industry i.e. the diamond cutting and polishing industry, largely resident in the unorganized sector and composed of numerous informal sector firms (ISFs) is identified for our purposes and in-depth study of small and large ISFs in India is conducted to shed light on their role in IB today.

Literature Review

Defining the Informal Sector: The notion of the informal sector was introduced in 1972 (Bangasser, 2000) when International Labor Organization (ILO) defined its characteristics as small scale, low resource base, low entry barriers, family ownership, labor-intensive, using adapted technology, skills acquired outside the formal sector and operating in unregulated and competitive markets (ILO, 1972). The informal sector firms were identified as unincorporated entities without separate complete accounts but units of production operating at a low level of organization, based mostly on casual employment, kinship or personal / social relations rather than contractual arrangements with formal guarantees (ICLS, 1993). The concept here is that ISFs engage in production of goods and services with the primary objective of generating employment and incomes to the persons involved. As mentioned previously, the definition of the unorganized sector has evolved over time (Chen et al, 2004); we reproduce below a compilation of the emerging views about the informal sector today as compared to how they were viewed in the past.

Size of the Informal Sector: According to World Bank estimates, informal economy accounts for 40 % of the Gross National product (GNP) of low-income countries (Farrell, 2004). In India, the unorganized sector accounts for 62 % of GDP, 50 % of gross national savings and 40% of national exports (ILO 2002 a). The 1999-2000 NSSO survey reported that 92 % of the Indian workforce (370 million workers) was employed in the unorganized sector; any macro-analysis would find it hard to ignore these figures.

Table 1

Past	Present
The informal sector is the traditional economy that will wither away and die with modern, industrial growth.	The informal economy is 'here to stay' and expanding with modern, industrial growth.
It is only marginally productive.	It is a major provider of employment, goods and services for lower-income groups. It contributes a significant share of GDP.
It exists separately from the formal economy.	It is linked to the formal economy – it produces for, trades with, distributes for and provides services to the formal economy.
It represents a reserve pool of surplus labor.	Much of the recent rise in informal employment is due to the decline in formal employment or to the informalization of previously formal employment relationships.
It is comprised mostly of street traders and very small-scale producers.	It is made up of a wide range of informal occupations – both 'resilient old forms' such as casual day labor in construction and agriculture as well as 'emerging new ones' such as temporary and part-time jobs plus homework for high tech industries.
Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation.	It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and most non-standard wage workers would welcome more stable jobs and workers' rights.
Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.	Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses, and informal employment includes not only self-employment but also wage employment. All forms of informal employment are affected by most (if not all) economic policies.

Source: Chen, Martha, Joann Vanek and Marilyn Carr. 2004. *Mainstreaming Informal Employment and Gender in Poverty Reduction: A Handbook for Policy-makers and Other Stakeholders.* London: Commonwealth Secretariat.

Theories of the Informal Sector: Scholars have long tried to explain the existence and nature of the informal sector. The dualist approach (ILO, 1972) considered the informal sector as comprising marginal activities, distinct and unrelated to the formal sector. Sethuraman (1976) and Tokman (1978) believed that informal activities emerge due to limited opportunities in the formal sector. Surplus labor, low economic growth and high population growth may act as catalytic agents for the under-privileged to operate in the informal sector which provides income for the poor and a safety net in times of crisis. The structuralist school describes the informal sector as subordinated economic units (micro-firms) and workers that serve to reduce input and labor costs thereby increasing the competitiveness of large capitalist firms (Moser, 1978). Unlike the dualist model, the structuralist model views the formal and informal sectors as co-existing and inextricably connected and interdependent (Castells & Portes, 1989) and the focus is on the nature of capitalist development rather than a lack of economic growth.

The legalist school posits that the informal sector is comprised of micro-entrepreneurs who choose to operate informally to avoid the costs, time and effort of formal registration (de Soto, 1989), and that they will continue to produce informally so long as government procedures are cumbersome and expensive. The difficulties in creating legal businesses compel the poor to skip the process. The il-legalist school according to some neo-liberal economists (Maloney, 2004) suggests that informal entrepreneurs deliberately avoid regulations and taxation and may deal in illegal goods and services. Informal entrepreneurs choose to operate in the underground or black economy illegally or even criminally so as to avoid taxation, commercial regulations, electricity and rental fees, and other costs of operating formally. According to the neo-classical view (Schneider, 2000), the informal economy responds to the economic environment's demand for urban services and small scale manufacturing. It adds a dynamic and entrepreneurial spirit and can lead to more competition and higher efficiencies. The informal sector may also contribute to the creation of markets, increase financial resources, enhance entrepreneurship and transform the legal, social and economic institutions necessary for accumulation (Asea, 1996).

Method

Since precious little can be done about collecting financial and other data sets from informal sector firms, we therefore attempt to explore the intangible aspects of organizing i.e. role of culture which influences various firm practices in the informal sector. Although culture is unique to a firm or its subunits, industries exert influences that cause cultures to develop within defined parameters (Gordon, 1991), we therefore make an attempt to understand the industry as well as the firms nested within the industry.

We collected industry-based data using both primary and secondary sources. The industry export-import data were collected from GJEPC (Gems and Jewellery Export Promotion Council), India to assess the size and growth of the industry. Although the information obtained gave insights about overview of the trade at the global interface, that is, about transactions at the point of exchange between India and other countries, it did not reveal how the industry operates within India nor shed light on the ISFs. The two authors travelled extensively across the state of Gujarat to the small, medium and large sized CPD units (cutting and polishing of diamonds), mostly ISFs involved in manufacturing of diamonds and in Mumbai offices used for trading of these diamonds. Some smaller ISFs were so tiny and existed in locations which did not even have an official address, nobody seemed to know the exact count of all ISFs and estimated the number to be anywhere between tens of thousands to a million. In-depth interviews were conducted with diamond manufacturers, traders, exporters, workers, artisans, representatives from the related government agencies and at the Indian diamond institute as well as with others who were knowledgeable of the diamond industry. As there were limited records for the distribution of the various CPD units and their location, judgment and convenience sampling technique was adopted for the respondents interviewed. We present below a summary of insights gained about the overall industry.

In order to understand how an ISF traverses its journey from a small local firm which served the purpose of an outsourcing destination to changing the rules of the game and becoming a large global player, we also conducted an in-depth analysis of a large-sized successful (not ISF) CPD firm which has existed in this informal sector for the last 40 years. Again, as there is a lack of comparative data to list the more successful firms in this industry, this firm was identified after analysis of inputs obtained from the exploratory study and of those received from responsible actors in the industry. Our objective was to understand how this Indian CPD firm has evolved over the years from a small ISF to a large global player while operating in an industry dominated by informal sector firms.

Research Context: The Globally Distributed Diamond Industry

The diamond cutting and polishing industry is truly global and the table below gives the list of countries which produce diamond rough and those which import this rough by value. By way of context, for our study, raw material is called 'diamond rough', which is mined and procured from different countries around the world: Africa, Russia, Australia and Canada. This rough is imported by different countries where it is cut and polished. Table 2 illustrates the global percentage share, by value, of regions and countries which produce rough diamonds and of those which import this rough in 2008; Table 3 shows the percentage share of polished diamonds by value for different countries. The finished product is traded mostly in Antwerp, Belgium, and exported to different parts of the world, the major consumer being the USA.

Table 2

Diamond Rough Producers and Importers

Rough Producers (US$ 12.73 billion)	Percent	Rough Importers (US$ 40.07 billion)	Percent
Botswana	25	European Community	36
Russian Federation	19	India	24
Canada	18	Israel	15
Angola	10	China	6
South Africa	10	South Africa	5
Others	18	Others	14

Source: Kimberley Process

(http://mmsd.mms.nrcan.gc.ca/kimberleystats/public_tables/AnnualSummary)

The global diamond industry has had a presence in India for almost half a century and has been understood to be part of the unorganized sector. While Antwerp, Belgium was the manufacturing hub of cut and polished diamonds in the 70s, it has shifted to India which is now the world's largest center for cutting and polishing of diamonds, earns significant foreign exchange and has contributed to the country's export-led growth. It is useful to note that the Indian diamond industry is composed of a network of thousands of ISFs of different sizes employing over a million people most with little formal education. Further, most of these informal sector firms are concentrated in Gujarat, a western state of India predominantly in the city of Surat. The Indian ISFs now produce 60 percent of the net worth of global output of polished diamonds. (Table 3)

Table 3

Countries exporting Polished Diamond (by value)

Exporter	Percent
India	60
Israel	12
Belgium	2
Russia/ CIS	6
South Africa	5
U.S.	4
Others	11

Source : ICRA (www.icra.in)

Despite the global nature of the trade (India's primary consumers are global, not domestic) and the background of the workforce, networking of the ISFs has developed into an industry which enjoys a 95 % global market share of exports by number of pieces, 82 % share by carats and 60 % share by value. Nearly 11 out of every 12 diamonds sold worldwide are cut and polished in India.(Source: GJEPC) Figure 1 shows the rise of the Indian diamond industry over the past two decades.

Figure 1

Growth of Exports of cut and polished diamonds from India

Source: gjepcindia.org

Summary Of Findings: The Industry Overview

A Modest Beginning: In the 1950s, the processing of diamonds was done mainly in Antwerp in Europe. As more diamond mines were discovered, there was increase in the availability of diamond rough. Also, there were enormous price differentials in the processing of large and small sized diamonds. The diamond manufacturers of Europe were faced with the problems of handling a large chunk of rough diamonds and were willing to share the production of small sized diamonds which gave lower returns on investment (personal discussion). At the same time, a newly born Indian democracy was crippled with problems of unemployment and poverty. Our study revealed that a few enterprising Indians who went to Antwerp agreed to bring to India the left-overs of diamond rough for polishing. These were very small pieces of diamonds or 'grains of sand' in diamond terminology. The entrepreneurs from Gujarat in India, utilized this opportunity to develop indigenous methods of cutting and polishing of diamonds in small factories (CPD units). The finished product, the processed diamond was then exported to the globally centralized trading market which existed in Antwerp. This was like outsourcing of low-valued diamond rough to an under developed country in those times.

The Incredible Growth Years: Between 1970-80, there was an increase in the size of the industry, and in the number of CPD units (ISFs) in India (personal discussion). The secrets of this business were shared with and restricted to the members of a local community in Gujarat. The community members were largely simple, religious and possessed very little formal education. Personal discussion revealed that those who were interested in going to school were attracted to the diamond business and dropped out of their studies. Despite the lack of management education, management styles and organizational skills were developed. They tirelessly worked on upgrading the skills of artisans as well as on the techniques of diamond processing. As these informal sector firms (CPD units) increased in size, they moved up the value chain and some even set up their own trading offices in Antwerp in Europe. After creating a niche in the diamond arena with small diamonds, some of these ISFs developed skills and technology for cutting and polishing larger stones and fancy cuts. Improved technology and product quality helped 'in-sourcing' of higher valued raw material, the larger sized diamond rough to India. The larger ISFs eventually developed a worldwide marketing network of global suppliers and clients on their own. The entire process, by the dawn of the 21st century, led to a shift in the global production base of diamonds to a country which by now had transformed into an emerging economy. The ISFs were successful in leading the remarkable growth of the CPD industry from 0.12 billion US$ in 1975-76 to 14 billion US$ in 2008-09 (Source: GJEPC)

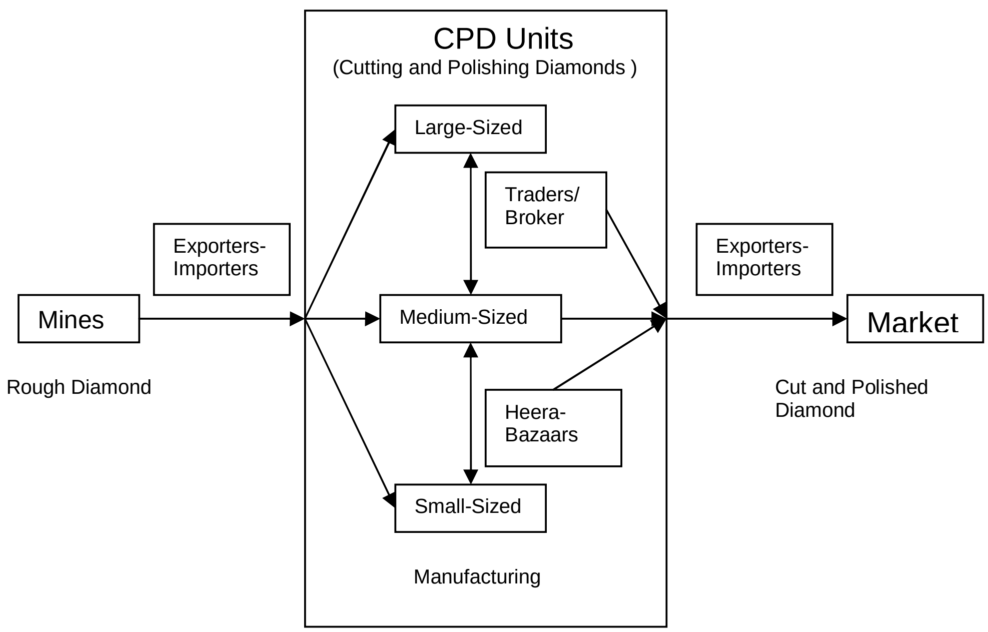
The Industry Structure: Our visits suggest that even today, there exists a huge network of traders, manufacturers, artisans and brokers engaging perhaps more than a million people. Also, it appears to be difficult for anyone to predict the actual number of diamond manufacturing units or the actual number of people employed, as processing is done in large, medium and small units spread across the state and reaches many villages and even homes for which there are no records. We visited many of these small ISFs, many of whom were family based, with fewer than 10 family members, or extended family members engaged in CPD. The workers worked in humble conditions, some in sweat-shop conditions, nevertheless the families graciously welcomed us into their homes, many of which had no concrete flooring.

As in any other industry, some ISFs performed better and have grown faster. As a result different sizes of units exist which can be categorized as small, medium and large depending on the number of diamond pieces, the size of individual diamond pieces, the quality or grade of diamonds being polished and the number of people employed. The large-sized diamond units are few in number but have risen to be centers of excellence in various aspects of management of resources, human and material, and of doing business, both within and outside the country. Some of these Indian diamond polishing factories are today, on par with the world's best and make use of laser machines, computerized yield planning machines, advanced bruiting lathes, diamond impregnated scaives, etc. According to a survey conducted by GJEPC, the percentage share of the organized sector increased from 9 % in 1995 to 45 % in 1998. What we witness today is that the industry is becoming increasingly organized. The recent recession has also paved the way for consolidation.

Networking of CPD Units: Different categories of CPD units are equipped to cater to cutting and polishing of different categories of diamond rough. The large CPD units have subsidiaries and outsource the smaller and lower quality rough to the smaller CPD units. Discussions revealed that the imported diamond could pass through different channels before being exported (Fig 2). It is now possible for a large manufacturer to directly import, process and export diamonds. The medium sized CPD units may depend on the traders and brokers who are involved in the intermediate buying and selling. Smaller units at the lower end of the chain participate in the Heera Bazaars to collect their share of the diamond rough for polishing. These bazaars are (men only) trading markets which buy and sell all forms of small diamonds for subsequent processing. Since we were two female researchers, we had to receive permission to enter the Heera, and needless to say, we caused quite a spectacle.

Figure 2

Networking of CPD Units



The Heera Bazaar: Trading across various levels between importers, exporters and manufacturers is carried out through thousands of brokers operating at the same time on open streets in markets called *'Heera Bazaars'*. Diamond packets worth millions of dollars continue to exchange hands without formal receipts. There are Heera Bazaars located in different parts of the state of Gujarat which cater to the nearby ISFs. The rough diamonds as well as the polished ones are traded here. It appears impossible to track and account for the exact number of such transactions or the number of people involved in them, however, they seem to be well-connected to the industry network and are engaged optimally to produce the overall output of the industry. **W**e could discern no real pattern of organization amidst the yelling and shouting (imagine the trading floor of the US Stock Exchange to the uninitiated). How and why two traders came together, agreed on a fair price and exchanged money had no 'handbook of instructions or directions' that we could tell, and no one would address the issue with us.

A Unique Transaction System: The transaction of diamonds is carried out through special mechanisms. The transportation of diamond packets, both rough and polished, is largely done through *angadias.* Angadias are people (couriers), members of a local community of *Unja Patels* ,who have specialized in carrying diamonds safely within the industry for a period of over four decades and have achieved trustworthiness of the highest order. There are often no written contracts, many transactions occur in cash, and stones worth millions of dollars are transported with virtually no security. The angadias could also be carrying these diamond packets in their pockets and traveling in the economy class of a train. The whole industry they say, works on trust. One trader showed us what the packets looked like, and they were packets of paper folded around perhaps hundreds of small-sized diamonds, all of which fits into a shirt pocket of the angadia.

The Industry Glue. Thus, the Indian diamond industry mainly consists of members of a particular community who are often socially / familialy-related to each other. They seem to share an industry culture with few formal systems unlike what we see in the so called organized sector. Most functioning of the industry seems to be nested in psychological contracts and trust which is reinforced through social bonding. It resembles a close-knit community that thrives in the atmosphere of secrecy and informality that envelops the diamond trade. Self imposed rules, discipline and order is observed and the business dealings carry out smoothly with few formal policies and procedures or documentation. Whereas in the US, when people transport gems and other precious jewelry they must be bonded, and do so with heavy security, in India, there are none of the controls we observe in more advanced economies. Equally stunning, is that despite opportunity, there appears to be little to no theft or heists.

The Case Study

We now turn to our case study of a large-sized CPD unit and include a description of its culture, innovations and human resource practices. Established in 1969 by two brothers with a handful of employees, the second generation of the family joining later, the annual revenues of this unit grew from approximately one million USD in 1988 to 350 million USD in 2008, the employee headcount now stands at 1500. The firm enjoys the reputation of having revolutionized the domestic and international diamond cutting and polishing industry, and of redefining the concept of a modern diamond processing unit and its innovative human resource practices.

The Initial Growth Phase: Initially, the office and the factory of the CPD unit were separated by a distance of 3-4 km, which resulted in a few misunderstandings which led to worker protests. The founders realized the importance of a regular interaction and communication between the workers and the managing staff so in 1982, they conceptualized a CPD unit with an office and a production facility in the same premise; the concept was later accepted by the industry. Coping with an industry that was booming and manufacturers were roping in workers from other companies, they used their business acumen. Compromising on quality was not acceptable, neither were the employees penalized for doing so, instead, salaries were doubled and a unique quality/incentive-based wage system was established. They resolved to provide good working conditions and better salaries to their employees. Further, methodologies were invented to achieve quality and they were quick to adopt new technology. In less than 10 years after inception, along with routine business activities, the firm also began allocating funds to social and religious welfare activities.

Defining the Concept of the Workplace: Far from the sweat shop images that we portrayed earlier (and are still common to some extent in the small and medium-sized CPD units), in June 2002, the unit's new US $ 12 million state-of-the-art manufacturing facility was made operational. It is a centrally air-conditioned 8 floor factory premise of 260,000 sq. ft. area on a 6.5-acre plot in Surat, providing an excellent working environment. There are landscaped gardens, spotless buildings, product line arrangements neatly divided into separate rooms, smartly dressed security guards who welcome visitors with warmth and hospitality and hi-tech automated security systems to guard the place. We were hosted in their ultra modern guest house, where we interviewed the founders and the top three in his management team. More than a thousand workers and skilled artisans work diligently and with discipline on their respective machines using computerized tracking systems, cutting edge laser technology and the most modern and sophisticated diamond processing equipments.

The People Structure: No formal organization structure exists, people are grouped into different work areas; a manufacturing unit exists at Surat and a sales and marketing office in Mumbai. About 86 % of employees work in manufacturing, 7% as support staff including canteen attendants and security watchmen, about 5% are employed at the Mumbai sales and marketing office, and the remaining for administration, data processing, audit, etc. It is easy to notice that overheads are minimum.

Marketing and Sales: Expenses on conventional marketing are kept to a minimum. The logic here is that if you offer transparency in the attributes of the product, it translates into customer confidence which goes on to build more customers through word of mouth. And yet, talk of buying -selling norms, there exists a law of non-negotiable price. Take it or leave it, the first offer is the final offer and is determined by a computerized system, based upon a long list of parameters which 'do not' emphasize the fluctuating prices and the profitability of the company. No lengthy credits of up to 9 months to customers at this CPD unit, the average receivables in 2008 were just 10 days. Initially, customers were angry and the sales went down, but the company adhered to its policies, refined the grading systems and ensured that the stones were exceptionally well cut. Over time, they developed a strong client base that was ready to buy their diamonds online *without* physical inspection of the diamond. This has cascaded into a strong global customer base spread across USA, Europe, Japan, Asia, the

Middle East, Australia, Canada, New Zealand and South Africa to an extent that they are willing to pay a premium.

Achieving Quality in Production: No two diamonds are alike just as no two humans are, and achieving quality in polishing diamonds is not an easy task. The rough diamonds are sorted and valued depending on shape, quality, color and size. In this unit, some 1270 skilled artisans, assorters, graders make use of their traditional knowledge as well as the high tech laser technology and machines to convert the rough stone into polished diamonds through a well designed manufacturing scheme. There is no QC department in the set-up, but a unique system of individual accountability and responsibility has been designed for every action/decision, which inherently ensures the best possible quality control. We were allowed to watch this process of quality control, and unlike other ISO standards, their grading system is transparent and comprehensive.

People Management Practices: It doesn't end with the diamonds and their manufacturing and selling, at lunch time all employees including the owner eat together in their company canteen facility with the unit's own kitchen staff serving vegetarian food free of cost. The CEO notes, "It is not free lunch, because it is only for those who work here. If the workers are happy, they perform better, if they perform better, our clients are happy, if my clients are happy, so am I." Annually, every employee has two vacations (Diwali and summer) which are three weeks long. Everyone works eight hours per day; they have pension plans, and workers self-supervise. Closed circuit cameras monitor many parts of the factory, particularly the assembly line.

Negative thinking or "acting out" has no place, according to the founder. People are encouraged to think and act positively, as well as to not shout or even raise their voice during discussions. Before vacation begins, the founder addresses all employees through the public address system, or in a town meeting, and advises them on various issues related to their personal safety and family welfare, advising them to drive carefully, and to not indulge in bad habits like tobacco. He explains to his workers that their life also belongs to their family members and therefore they should take care of it. It was common for employees to confess that their behavior at home had improved since they started working at this CPD unit. In turn, the families of these workers have also developed deep regards for the founder.

Generally, the company prefers to promote from within. It recruits experienced workers who have a proven track record of honesty, diligence and dedication in their area of work. The founders believe that people need to be made aware of the immense unused potential lying within them. In addition, they never ask a person to perform a task below the level of his/her potential. This is perhaps how they make optimal use of their human resources. Safety of the valuable diamond pieces in CPD units is important, hence fingerprints as well as palm-prints of new recruits are taken, nevertheless they still utilize the angadia system of transporting gems and cut diamonds.

In order to keep people motivated, an innovative quality/incentive-linked wage system and unique methods of resolving disputes have been devised. State of the art safety standards and welfare measures take care of the employees. Since inception, founders have stressed effective communication and any lapse is not accepted on any employee's part irrespective of rank, job or position in the company. "People have a tendency to send selective messages, we have meticulously tried to nullify them. If any worker or artisan tries to approach me, I listen to him with utmost priority " claimed the founder.

Major Innovations at the CPD Unit: Surprisingly, unlike the reputation of the industry, a unique IT-driven business model is in place which seamlessly merges manufacturing, grading, pricing, sales and marketing aspects of the business. The CPD unit started computerizing in 1987. A Grading system was invented in 1996 at this CPD unit for a diamond piece which became the standard for the global diamond industry. Beyond what we normally think of as the 4 "C's"—color, cut, clarity and caratage, they have evolved a criteria of 17 grading attributes, 17 C's sets standard in the industry, and this means world-wide. 'On-line Sales' was launched in 1997, a first for any manufacturer in the global diamond industry. For a product such as a diamond, it calls for a great deal of credibility of a company to give the confidence to its buyers to purchase online without physical inspection. In 2005, the company hosted an in-house web server, providing the entire inventory on real time basis for their online buyers. Later, besides the grading details, digital images of diamonds were also made available. Sales through the website totaled about 37% of total sales in 2006 which, is an amazing reflection of customer trust and confidence given the nature of the product.

In 2003, the company introduced Confirmed Order Requirement (COR), a revolutionary system of buying diamonds on specification without personal inspection. Apart from boosting consumer confidence in the business integrity of the company, the system alone contributed to 12.31% of sales in less than six months. Sales crossed the US $150 million mark in the year 2003. Exports crossed US $100 million in 2002 on year-to-date basis. Sales grew from US$ 67.09 million to US$ 174.80 million in a period of 3 years between 2001 and 2004.

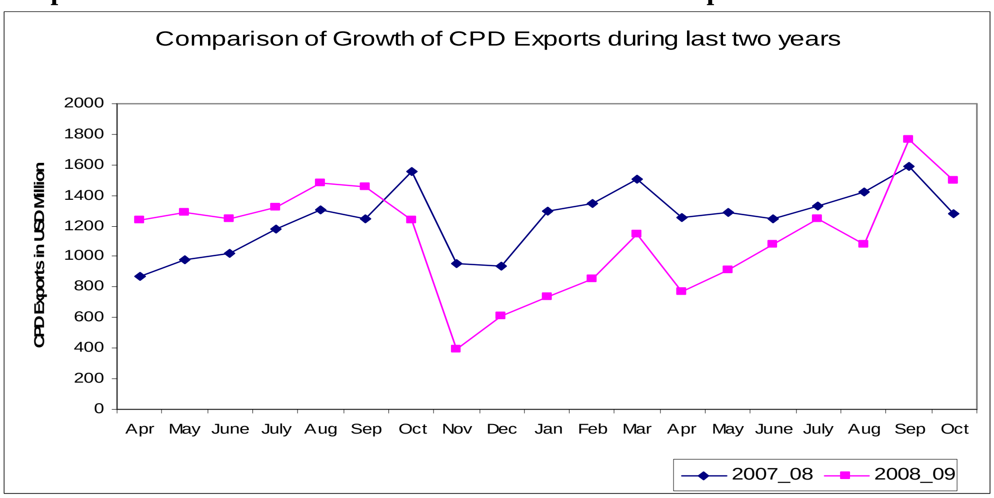
Social Responsibility: The importance of CSR as we know today was practiced by these Indian entrepreneurs for the last three decades. Besides developing industry best practices as mentioned above, they contributed to other aspects of diamond trade and industry like suggesting government policy decisions. This CPD unit has made numerous and significant contributions towards religious, social, educational and disaster management needs of society.

Impact of the Global Turmoil: The year 2008 witnessed a global economic recession impacting all export-oriented business across the world. The Indian diamond industry was not an exception given the dependence on the global economy for exports and USA being the largest consumer of polished diamonds. However, it is remarkable that this industry which continues to be largely comprised of the ISFs showed resilience and bounced back quickly after going through a narrow phase of downturn.(Fig 2).

The founder of the CPD unit of our case told us that in the last four months, they have in fact achieved production equal to what would otherwise happen in a couple of years. While retaining their employees during the panic of recession, when several companies world over were engaged in retrenchment of employees, this unit was also investing more in the raw material, the rough diamond during those times (available at reduced prices during the times of recession).

Figure 3

Impact of 2008 Recession and Revival thereafter on the Exports of Indian Diamond Industry



(Compiled from data available at gjepcindia.org)

Discussion

We now present theoretical insights drawn from the industry and firm level exploratory field study conducted in the informal sector. It is suggested that informal sector firms are not just local firms but can also have global reach. The analysis of the findings from the exploratory study of the Indian diamond industry and that of the case study of a large CPD unit leads to significant findings. The Informal Sector Firms which have made it big on the global front have flourished like a close-knit community with entrepreneurs like the one we have described above leading at the forefront. As the volume of business increased, they passed on the business to others connected to the same community.

Despite little formal education, professionalism exists where verbal commitments are honored and met, and a high order of integrity is exhibited, and it is all a part of their societal culture. Culture is a shared pattern of values, beliefs and assumptions (Schien, 1996). The networking of ISFs as observed in the diamond industry ISFs, works on a culture of trust and mutual respect. The people involved take pride in their work and in what they have achieved. A sense of belonging to the community is a big motivating factor and people try their best to be known and respected by adhering to the norms as established by their culture. Mariano Grondona (1999) argues that the revolution of economic development occurs when people go on working, competing, investing and innovating when they no longer need to be rich. This revolution can happen only if the values that promote prosperity do not disappear when that prosperity first arrives. A similar display of simplicity, sincerity to work, diligence and discipline was observed down the line from the large to medium and small sized CPD units.

It appeared that the smaller units were not underpinned by the larger ones, and were happy to be operating from their native places, the location of their respective villages where they shared their life with the members of the family and kith and kin. However, the mention of the big names did evoke a sense of respect and motivation to grow. It was observed that in the broader context of the Indian diamond industry, there is lack of formal systems like documentation of the diamond packets exchanged and of the financial transactions or that of the recording of employee details or number of units etc. However, it appears this made them feel proud of their ability to conduct a business of a huge global dimension based on mutual trust within their community. The community or clan feeling appeared so strong that the mere thought of being ousted from the group and the diamond business on account of not delivering on the verbal commitments or due to any symptoms of dishonesty became a driver to behave as per norms.

Also, it was uniform across the sizes of the CPD units that the unit owners were sensitive to the family concerns of their employees which in turn helped employees to be loyal and devoted to their work. Another interesting observation at least in the smaller units, was that after the workers and the artisans learned the art of cutting and polishing a diamond, they were likely to start their own CPD unit and employ others known to them through personal references. A culture of individual responsibility which goes in line with entrepreneurial spirit as is demonstrated by these ISFs, drives them to start their own units. The ISFs would like to have their cultures more attuned to their societal cultures which they are passionate about. If the ISF is non-compliant it also means it cannot expect any help from the institutions and the informal sector by default makes the entrepreneur responsible.

It is not that some societies are completely impervious to commercial incentives or international influences such as trade, investment, technology. It is just that some cultures accept these ideas more readily than others, and that different cultures often promote commerce and enterprise differently.

Close personal relations and family ties there helped foster economic development created the very same security and trust needed for trade relationships that laws and an independent judiciary had fostered in the West. In the postwar era, the reliance on family-dominated firms meant that many Asian nations did not have to wait until they had a well-developed commercial law system before growth could accelerate.

An enterprising spirit was omnipresent and everyone understood the importance of what they were doing irrespective of the place they were operating in on the value chain. The huge network of these thousands of ISFs was in a way kind of held together by a common goal of doing and improving the business of diamond cutting and polishing and they understood exactly the informal systems in place. Most large sized unit owners mentioned that they had a dream of making Surat the world's largest diamond cutting and polishing centre, which they achieved and it gives them a sense of fulfillment. And they contributed to the society by getting involved in social, religious and other human endeavors.

Due to lack of formal systems, we suggested that an ISF's behavior is largely influenced by the dominant values and beliefs which result as an interaction of societal culture, industry culture as well as values and beliefs held by the founders of the firms and of those with influence within the ISF . The firm's behavior is guided by the complex interactions of these different cultures and is therefore more flexible and adaptive to dynamic external circumstances. The culturally-sensitive and culturally-strengthened ISF is perhaps what explains the resilience of such firms during the recent global crisis. Economies which are dominated by the informal sectors as in emerging economies have also exhibited the first signs of revival as demonstrated in the case of the diamond industry.

Earlier, ISFs served as outsourcing and off-shoring units of production of goods and services, but have gradually moved up the value chain and networked with both formal and informal sector firms in different countries thus giving rise to an informal industry culture as evidenced in the global diamond industry. This industry culture is influenced by societal cultures in places where ISFs are geographically concentrated. In globally distributed industries and supply chains, different cultures merge to give rise to specific industry cultures which then influence cross-border behavior of firms.

Samuelson (2001) argued that most existing approaches to ISFs make an implicit economic assumption that human nature is universal: confronted with the same incentives, people everywhere will respond similarly; however, human behavior is shaped by history, geography, religion, climate and tradition related influences that create culture and hence is not uniform . People across the globe have different values, beliefs and customs; they behave differently and create societies with different legal and political systems. Some societies may be more culturally-friendly to economic growth than others and these forces may also affect enterprise, invention and material accumulation cite. This may explain why ISFs in some regions perform better globally than others. Even within countries, different regions and different groups have different experiences.

Conclusion

The study of the informal sector firms in the diamond industry provides useful insights. Although we have chosen one large CPD as our focal case, the authors visited dozens of small and medium sized ISFs, during the data collection phase. We think it fair to say that the informal economy thrives on an enterprise culture which cultivates entrepreneurship and facilitates its growth while contributing significantly to the economy. Informal sector firms are growing large and that more such firms can emerge from anywhere across the world in any industry because they have certain advantages of both local and global knowledge. As the world shrinks, there is space for both the formal and informal sector firms to become global players. However, the societal cultures like the one we see in the Indian diamond industry is likely to play a significant role in internationalization of the ISFs. The countries with more of such ISFs will draw higher FDI as they provide for the structural support to the firms which have moved up from the lower band to the upper band as well as a cost structure to the industries they are a part of. While many in the corporate business and the world economy in general continue to struggle with the aftermath of the recession, the ISFs we studied have shown sufficient resilience to bounce back. A possible outcome of this study is that industries and firms of the informal sector possess close knit community culture which helps them to survive the difficult times. It is evident that some unique leadership styles, management skills and culture exist within the ISFs as in the Indian diamond industry and its contribution to the growth of economy as well as to the study of organizations cannot be ignored. Given the cultural and social diversity, the informal sector is also differentiated and heterogeneous; nevertheless, a first step in analyzing globally distributed work here is to recognize it as an existing and potentially powerful driver of the economy.

Implications For Future Research

This preliminary study on the multifaceted diamond industry opens a whole new directions for future research. The ISFs, so called due to the absence of traditional corporate structures, strategies and statistics, remains under-researched and empirically undocumented. That these unorganized, globally-dispersed companies appear to gel or 'fit' into a more 'organized' framework later in the value creation chain challenges our current thinking on organizing and managing for competitive advantage. Neither theorists nor empiricists have studied these unorganized organizational forms, nor charted any so-called best practices despite this dominant global market share. Hence, this is a first such attempt to study these new organizational forms, as represented by the ISFs in India. We believe this study will have significant implications for theory as it explores new forms of organizing as displayed by the ISFs of the Indian diamond industry. There exists a large scope to learn from their innovative operations and value systems. Study of the unique people management practices is likely to add to the body of literature on human resource management. It is therefore suggested that more empirical research be conducted to unearth the unexplored dimensions. Clearly there are implications for practice for SMEs in all developing countries.

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