

Chapter 3

Entrepreneurial Globalization: Lessons From the Offshoring Experiences of European Firms

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Abstract Emerging economies as destinations for offshoring value activities is now a widely recognized fact. Much of the academic writing on this phenomenon focuses on showing how access to low-cost inputs provides an opportunity for firms to compete more profitably. In this paper, we argue that, with the opportunity set for distributing the value activities across the world expanding, internationally oriented firms also enjoy the opportunity to be more entrepreneurial in their strategies. Such entrepreneurial globalization, however, calls for simultaneous changes in multiple aspects of the firm. Drawing on case studies of European firms of different sizes, we show how firms have sought to rethink their businesses from ground up, reconfigure their value chain activities globally, leverage the resources of other firms, create strategic options for their firms, and have improved their competitive position in the market. Such firms may well be in the vanguard of an industrial renaissance in Europe, a continent that has hitherto been less receptive to the use of offshore opportunities offered by emerging economies. We conclude by identifying some implications for managers, policy makers, and academic researchers.

Keywords Offshoring · Globalization · Entrepreneurship · Entrepreneurial globalization · Globally dispersed value chain

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3.1 Introduction

A new global economic paradigm is taking shape. Offshoring is triggering a broad and fundamental shift in the underlying competitive dynamics of businesses. As the rules of the global competition change, tactical responses would not suffice. Simply responding by cutting costs will not help. Broad, holistic, and strategic responses are needed. Firms have to rethink their value delivery model from the ground up. Such profound changes to processes and organization call for an entrepreneurial approach. In other words, rethinking the business and developing a global value creation/delivery model is critical. Along with it, organizational processes, systems, designs, and structures as well as individual level skills and capabilities may have to change if firms want to do well in the new milieu of entrepreneurial globalization.

3.2 Background and Research Review

The new global economic paradigm we refer to is easily traceable to the growth of offshoring in recent years. The rise of China as a major manufacturing center and the rise of India as a major services center both suggest that value chain activities could be disaggregated and distributed in such a way as to bestow cost advantages on firms willing to compete with a global view of their activities (Dossani and Kenney 2007). Firms in Europe, North America, and, more recently, in Asia and Latin America have begun to take advantage of offshoring.

Many public policy makers and popular economic observers in the West, however, see a darker side to this offshoring boom. The critics suggest that offshoring blunts the long-term competitiveness of firms as value addition tends to migrate to low-wage nations. Initially, China's manufacturing strength was seen as leading to Western manufacturing firms losing out in the new global division of labor. Recently, as India gained prowess in services, critics have become shriller suggesting that high-quality, high-wage jobs would also migrate to low-wage nations. Many opine that Western firms would simply end up as shell companies with little value added in the West.

Among the critics are the Presidents Obama of the United States and Sarkozy of France who have blamed offshoring for loss of jobs in their nations. Commentators like Dobbs (2004) and analysts like Price Waterhouse Coopers of Canada (2004) have argued that offshoring was leading to loss of jobs as well as loss of competitiveness in the Western world. Finally, Nobel Laureate Samuelson of Massachusetts Institute of Technology (MIT) joined the debate in an academic article (2004) where he seemed to imply that, under certain circumstances, globalization of the kind where offshoring plays a major role may actually be detrimental to developed country economies. This seemed to have emboldened the critics of offshoring further.

The response of mainstream economic writers to this barrage of criticism has been threefold. The first is to simply assert that offshoring is here to stay, and it is futile to rail against it (Friedman 2005). While this may be true, it does not really answer the critics. The second is to fall back on free trade theories to suggest that, in the long run, offshoring will increase welfare in both developed and developing nations (Bhagwati 2004). Again, while this may be true, critics may respond, since in the long run we are all dead anyway, why not take policy measures to reduce the social impact of offshoring. The third approach had been to resort to econometric analysis to show that offshoring does not harm wage levels in developed countries (Haskel and Slaughter 2000). Unfortunately, other researchers using similar econometric approaches seemed to find that increased international trade might have worsened wage structures in developed countries (Feenstra and Hanson 1997). In other words, the debate between critics and defenders of offshoring seems to be ending up more as a draw than an outright win for either.

What is missing in this narrative is the ability to trace how offshoring leads to ground-level changes in the economy. By ground-level changes, we mean the destruction, creation, and recreation of enterprises. Students of entrepreneurship recognize that, as market space expands, opportunities for specialization grow (Stigler 1951). With that comes the opportunity for creation of new firms as well as reconstitution of older firms (Schumpeter 1934; Cohan and Rangan 2010). Such “creative destruction” is the driving force behind economic growth. It will be best if academics could demonstrate that such creative destruction is indeed taking place through offshoring. In other words, we need to move from a macroeconomic assessment to a microeconomic understanding to assess the impact of offshoring.

In this chapter, we start with the Schumpeterian notion of entrepreneurial reconstitution of firms. We argue that the best way to look at offshoring is to understand how firms evolve as they respond to global opportunities. Similar to the transformational impact of national level entrepreneurship (GEM 2010), “entrepreneurial globalization” is at the heart of transformational changes occurring in firms first and then in national economies. After pointing out how entrepreneurs redefine the competitive paradigm, we go on to argue that offshoring facilitates the occurrence of entrepreneurial transformation in firms. We elucidate this point through a series of case studies of European firms.

3.3 Entrepreneurship Defined

What is entrepreneurship? Fundamentally, it relates to how opportunity assessment, resources mobilization, and team building (Timmons and Spinelli 2003) come together to create a new enterprise. Moving down from such abstraction, we argue that entrepreneurship consists of five inter-related steps: rethinking an existing business, reconfiguring its value activities, leveraging other firms’ resources, creating new strategic options, and developing organizational innovations to create sustainable long-term value.

Perhaps, the best way to illustrate our entrepreneurship paradigm is through a well-known example. Consider the way Jeff Bezos went about transforming the book retailing industry to create Amazon.com, the world's preeminent internet book retailer. Using the new medium of the internet, Bezos was able to rethink the book retailing business. He reasoned correctly that he could use the internet to disaggregate the chain of value activities in retailing. Next came his insight that the value activities could be reconfigured since some activities could be moved from inside his firm to other firms. He identified book wholesaling and book delivery as activities for other firms. This meant leveraging the resources of other firms who had the expertise as well as the asset investment needed to serve Amazon's requirements. Bezos persuaded book wholesalers and book publishers to hold stocks on his behalf. This reduced Amazon's need to invest in large inventories. Bezos asked express delivery firms such as UPS and FedEx to help Amazon deliver on the promise of quick fulfillment of book orders. Such reconfiguration of value activities and leveraging of other firms' resources allowed Amazon to redirect much of its scarce resources toward software and systems development for internet acceptance of orders to fuel rapid growth. As Amazon grew, heavy investments in software and systems development led to the creation of new strategic options for Amazon; Amazon was able to move into retailing of other products that could use the internet-based channel. Finally, as Amazon went about mastering this entrepreneurial approach, the company also was able to create new organizational innovations such as how to forge, structure, and manage strategic partnerships with firms ranging from book publishers through book wholesalers to toy retailers (Wall Street Journal 2006).

Although we have defined and discussed entrepreneurship in the context of a startup like Amazon, it is obvious that the same process with the five steps we described above could happen in an established firm. More and more, large firms are seeking the development of corporate entrepreneurship within their companies as they recognize that corporate rejuvenation is critical for their firms' long-term survival (Thornberry 2006). Indeed, as we show below, offshoring-based globalization has given a further fillip to both the likelihood of and possibility for corporate entrepreneurship.

3.4 Entrepreneurial Globalization

Globalization has put entrepreneurship at the heart of corporations (Yoshino and Rangan 1995). Globalization opens up vast parts of the world for firms to operate in. With access to new places from where needed resources could be obtained, firms can rethink their businesses, reconfigure value activities, leverage other firms' resources, and come up with new organizational innovations. An early exemplar of such entrepreneurial globalization was Nike, the athletic shoes manufacturer.

Until the early 1970s, like many firms, Nike competed through vertical integration across all value activities like research and development, product design, and manufacturing. Senior managers then began to recognize that low-wage countries offered offshoring options, especially in manufacturing. Contrary to the traditional practice of multinationals, Nike opted not to set up its own factories abroad. Instead, it signed outsourcing contracts with local firms. Thus, like Amazon, Nike also rethought the business, reconfigured its value activities, and leveraged other firms' resources. As Nike gained experience with partnerships abroad, it shifted more resources to value activities—product design and marketing—that it had retained in-house to accelerate design and marketing innovations. It thus solidified its top position in the industry. The entrepreneurial globalization of Nike has led to worldwide growth and profitability.

Offshoring is leading to such a fundamental transformation in many industries. Indeed, offshoring holds the promise of such transformation for firms in most industries. In our research, we sought to test this hypothesis by studying four firms in Europe.

3.5 Four European Technology Firms

Our plan for this study emanated from our assessment that offshoring was slower to take off in Europe since there was a lot of apprehension about it. We wanted to study how some companies in Europe, especially in high technology, have dealt with offshoring. Our focus was on high technology since we wanted to see how European firms were doing in a sunrise sector.

3.5.1 Methodology

Our view was that, if we could demonstrate that a wide range of technology-intensive European firms, with all their differences—nationality, size, legal, and institutional—and attendant constraints, have benefited through offshoring, then it would answer the critics better than mere assertions of the benefits of offshoring. And, of course, if we could also show small- and medium-sized enterprises were able to use offshoring as a strategy for international entrepreneurship in the same way as large firms, our argument for entrepreneurial globalization would be further strengthened. These considerations governed our choice of case study sites.

The four firms were from four different European countries: Belgium, France, Germany, and Sweden. They ranged in size from less than 50 employees to more than 800 employees. To be precise, two companies started off as small firms with less than 50 employees although one of them during the period covered by this study grew to be a medium-sized firm with 200 employees. One was a medium-sized firm with about 225 employees which grew into a large firm with more than

650 by the end of the study period. The last one was already a large firm with more than 800 employees at the time of the study. Two of these companies were publicly traded companies and the other two were privately held. Interestingly, despite the differences in nationality, size, stock ownership, and several other firm-level differences, all four firms, after an initial trial-and-error approach, ended up with substantially similar offshore-based strategies along the lines we had delineated and termed entrepreneurial globalization.¹

We have given below short, thumbnail sketches of the four firms and their offshore approaches to bolster their global strategies. All of them used India as the key offshore center.

3.5.2 *DeDuCo, Belgium*

Originally founded in 1986 by brothers Carl and Tom Dujardin, DeDuCo started out by selling “clone” PCs to businesses. As the first laptops emerged in the late 1980s, it shifted focus to offer complete business solutions. This called for a dedicated software development team, which DeDuCo started building in Belgium in 1988, and which eventually numbered about 30.

A shortage of skilled programmers began to emerge around 1994. Within a very short period, 18 people—about 60 % of DeDuCo’s total development team—had left for better-paying jobs. Carl pointed out: “We had reached a crisis point. Our efforts to recruit more engineers in Belgium were an expensive failure. It was a dead end—if we did not do something drastic we would go out of business.” On the verge of collapse, the Dujardins sought radical solutions. In late 1995, they attended an event sponsored by India’s National Association of Software Service Companies (NASSCOM) and were introduced to a number of Indian outsourcing firms. A short time later, they started working with a major Indian information technology (IT) services firm. Although there was little trouble initially in building a team with the right skill set, retaining the workers was difficult.

“The outsourcing firm could not stabilize the team, and, within a year, we had decided to move into India on our own,” said Carl. Initially, DeDuCo hired a local manager but oversaw the operations from Belgium. As managerial and cultural challenges mounted, Carl and his wife moved to Bangalore to head the operations.

This initial foray was no cakewalk. Dial-up internet connections (the lifeline for any software firm) were slow and unreliable; international phone service was almost unavailable; and simple cultural differences caused a great deal of friction with the remaining workers in Belgium; even leading some of them to sabotage the fledgling operation in India. Despite the odds, perseverance brought its own

¹ The four case studies below were originally done as part of research work funded by the consulting firm Value Leadership Group (VLG) based in Frankfurt, Germany. They have earlier been published as stand-alone case studies by VLG in 2006. See Value Leadership Group (2006).

rewards. By 2006, the company was on a firm footing with 14 employees in Kortrijk, Belgium, and 30 in Bangalore (in a local affiliate named xsysys).

Carl imputed much of his success to the positive attitude of Indian personnel. He felt this was as important as their skills. “Part of the reason for this is material needs. In Belgium, what is there to strive for if you already have a house, a car, and so on? For many in India the sky is the limit. Indians who work hard can achieve in one year more than their parents ever dreamed of. Belgium is like a freight train on a track—people in India are a lot more flexible,” asserted Carl.

Offshoring gave Carl Dujardin the chance to virtually rebuild the firm from scratch. The cost advantages left him not only with bigger profits, but also better cash flow and a more solid balance sheet. More critically, the lower cost of doing business offshore turned a small, stable European software developer into an international growth business. The name change from DeDuCo Software Systems India to xsysys technologies was part of the firm’s plan to increase its workforce tenfold to 300 and to begin to offer IT services, as well as expand into the US market. According to Carl, this would not have happened if the firm had simply stayed in Belgium.

DeDuCo also reconfigured the value chain. The early stages of DeDuCo’s product development—requirements definition and analysis—remained in Belgium, as the engineers there had direct contact with customers and understood their needs better. But low-level design, coding, and testing were successfully moved to India. Once functional requirements were translated into technical requirements, the coding and testing work was relatively straightforward and self-contained. Only when the new product was deployed at the customer was the Belgian team’s involvement required again. DeDuCo’s global development model (Fig. 3.1) leveraged the relative strengths of developers in Belgium and India to minimize costs as well as time-to-market. True, the firm’s development methodology was standard for the industry. What was different was where each of the steps in the process took place, and how they fitted together.

DeDuCo’s disbursed value chain also created innovative process capabilities that xsysys could leverage in IT services. The activities, process steps, and capabilities were performed where they created the most value for DeDuCo and its customers.² Its global delivery model became a key enabler of the firm’s regained competitiveness and improved financial health.

The picture at xsysys in 2006 was vastly different from that of 1996. The Belgian and Indian offices were seamlessly integrated via a virtual private network (VPN). Inexpensive international phone service was widely available. As a significant number of expatriate Indians began returning after working and studying in the West, it helped increase the overall level of professionalism and reduce

² DeDuCo’s ways of disaggregating the value chain and dispersing it between Belgium and India according to the level of value creation illustrate well the theoretical arguments made along those lines by other researchers [Yoshino and Rangan (1995); Mudambi (2007, 2008)]. What is interesting is that this approach in a service industry follows a similar strategic pattern seen in manufacturing by firms like Nike (Yoffie 1991) and Acer (Everatt et al. 1999).

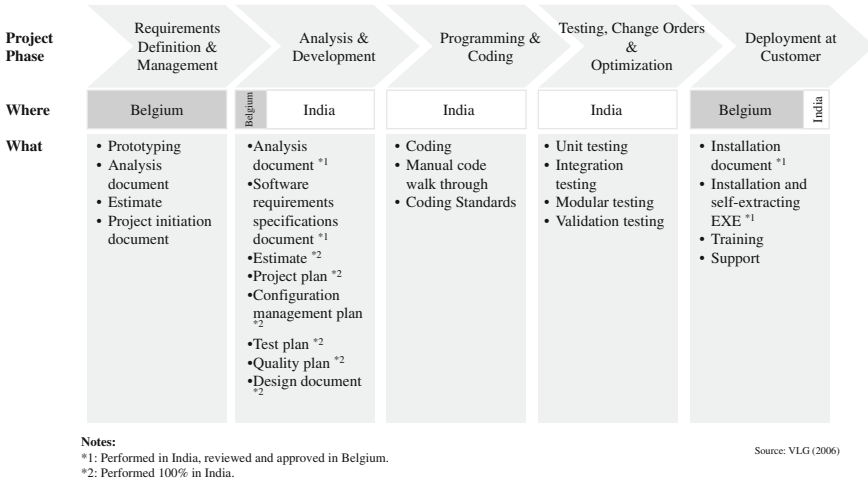


Fig. 3.1 DeDuCo’s software development strategy: living the global delivery model (this figure is reproduced with kind permission from Schumacher, VLG © August, 2012)

cultural differences. Carl felt that, in some ways, India in 2006 resembled Belgium in 1996, and “we’re losing some people to big companies.” But the lower operating costs in India meant that the firm was better prepared to offer competitive salaries, and the xsysys brand also had an impact with the potential workforce in Bangalore that it probably did not have at home.

3.5.3 Telelogic, Sweden

Unlike DeDuCo, which ventured offshore to survive, Telelogic, a provider of tools for advanced system and software development, entered India in April 2001 to sell their products. Based in Malmö, Telelogic originated as a unit of Swedish telecom firm Telia, and had developed tools for analysis, design, and testing of embedded software for telecom switches and other devices. Spun off as an independent firm in 1988, it acquired two firms—QSS (UK) and Continuous (USA)—and began offering solutions, automating the entire process for developing advanced software. It went public in 1999. From a modest beginning with two employees, it grew to a staff strength of 650, divided into three groups: Sales and Marketing, Inside Sales for the US, and the global support center (GSC) in India. At the time of the study, Telelogic had 40 offices in 28 countries with software development laboratories in Malmö, UK, and California.

What started as a product-selling move ended up by giving the firm a different hue! “We came to India simply to tap the market,” explained Sidharth Malik, Managing Director of Telelogic India. “But in the process we found there were other things here we could leverage for our operations in Europe and the US.”

Over time, the Sales and Marketing began to provide pre-sales support, mentoring, consulting, and training for the subcontinent, including India, Sri Lanka, and Pakistan. Inside Sales worked the night shift in India and called potential buyers in the US. The group identified prospects and passed the information on to the sales force. Doing it from India optimized the use of office space and was less expensive. The GSC, created in late 2002, provided phone- and e-mail-based support to users worldwide and on-site support for customers in India. In 2004, forty per cent of the firm's capacity worldwide for the GSC was in India and, by the end of 2005, India had 50 % of global capacity for the GSC.

In India, the biggest market segment for Telelogic's tools appeared to be with outsourcing giants like Infosys and Wipro, but, as Malik pointed out, these firms would have to use whatever development tools their clients use. "So they'll sometimes use our tools, but they won't standardize on them." Soon, things began to change. Malik recognized that smaller outsourcing firms, those with less than 500 people, needed differentiators. "They can gain significant competitive advantage by using Telelogic tools, which make it easier for them to implement and manage development processes. Our tools help them deliver significant value to their customer in terms of productivity, quality and time-to-market. As these companies grow rapidly, scalable solutions from Telelogic will help them manage the change better." It seemed that the future of the firm kept getting brighter day by day.

Another activity Telelogic India undertook was the handling of Indian operations of US and European multinationals. Malik cited an example: "One of our US customers with a development center here in India had a problem with a new product release, 3 days before the shipping date. They told us they would lose \$2.5 million if the release was delayed by the 2–3 days it would take to fix the problem via one of their support options in the US. But, because of our GSC here, we were able to send people onsite to fix the problem in time."

This experience helped Telelogic move away from seeing India as simply a cheaper source of workers. India gave Telelogic a competitive advantage when serving multinationals with critical operations in India. "As a result of our Indian GSC, we get more satisfied customers—and additional revenue—here in India as well as in Europe and the US," concluded Malik.

3.5.4 Valtech, France

The Valtech story is another example of bold entrepreneurial experimentation. It went offshore mainly to achieve scalability and operational flexibility. Valtech wanted to reach a new growth and profitability trajectory that could not be achieved with its old business model. The specter of European IT services industry entering the consolidation phase, partly due to rising competition from offshore service providers, gave the firm its cue for change. Valtech's offshore strategy—and the potential positive impact it might have on the company's valuation—gave

it an opportunity to benefit from future consolidation instead of becoming an acquisition target.

Based in Paris, Valtech was a \$100 million firm that developed and implemented advanced IT solutions for corporate clients in Europe, US, and Asia. Founded in 1993, it had grown primarily by acquisitions. At the time of the study, it had about 800 employees worldwide and its clients included the likes of BMW, JP Morgan Chase, and Vodafone.

With so many clients in the West, why the foray into India? As Valtech CEO Jean-Yves Hardy put it, the initial reason for going to India was to centralize development. “We are an international firm with a flat structure—we wanted to do more implementation and maintenance following new engagements. But, we discovered that none of the locations we already had was as good as setting up something from scratch. Our initial idea was not to go offshore, but to centralize development in a world-class location. It’s not the traditional cost-cutting story.”

“If we didn’t have India we would be niche players. We’d have to be the best at Java integration architecture, have the best programmers with the best CVs—we’d just be time and materials consultants with a high-end profile. There’s a market for that, but it’s not scalable. We are a small listed company, so we have a growth plan that analysts can cover and understand. Niches get you a profit but you stay small and don’t exist anymore for the stock market. India allows us to compete directly with the largest IT consultancies in the world,” added Hardy.

The biggest challenge Valtech faced was the change in focus that would be needed to get the most out of the offshore strategy. Valtech would have to move away from the work it had specialized in during the dotcom era, such as content management and portal development, and move toward the “back end” of Internet business. As a result, Valtech could transition from time-and-materials consulting to maintenance and services. Valtech Offshore in Bangalore was set up in 2003 following the creation of a joint venture with Indian offshore provider iVega. The iVega venture followed a 2001 partnership with Hexaware in Chennai (later terminated) and was expected to allow Valtech’s presence in India to grow to 300 workers by the end of 2004.

Valtech developed its offshore strategy over more than 2 years. During this time, Hardy made a number of trips to India, which formed the foundation of a strategy exploration and development process. This was a time of active learning and listening and an opportunity to ask basic questions and make some early mistakes. Many questions plagued Valtech CEO Hardy. Can we do this as a French company? What are our options? Will the offshore operation help Valtech solve its strategic issues, especially its need for scalability and operational flexibility? Should we partner or build our operation on our own? Who are the potential partners? Where should we locate? What are the risks? What is the legal process for setting up an export unit to qualify for tax credits? What strategic and operational changes will we need to make to the operating model to fully leverage offshore capabilities for competitive advantage?

As the timeline below (Fig. 3.2) shows, once the fundamental strategic direction was set, launching the offshore operation and getting into a growth trajectory

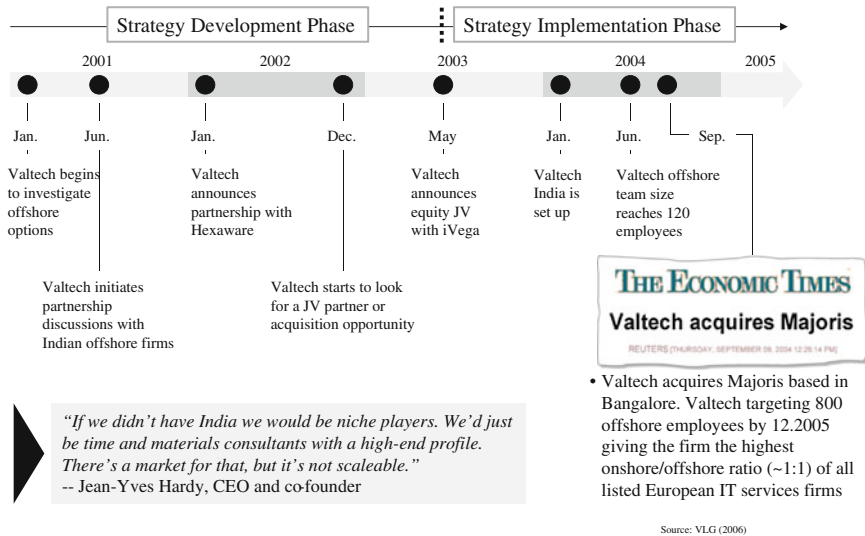


Fig. 3.2 Valtech’s timeline: patient strategy development but rapid strategy execution (this figure is reproduced with kind permission from Schumacher, VLG © August, 2012)

quickly was natural and the rapid pace continued thereafter. Hardy understood that the company’s offshore strategy needed to achieve more than simply cut labor costs. The global delivery model represents an innovation in process and organization design, and embracing this new way of doing business would require transformational changes to the company’s operating and business model.

Hardy also argued that: “The days of consulting with a pen and notebook are gone. In operational consulting you have to come in with a solution or people don’t take you seriously anymore.” Large multinational IT consulting firms could afford to take this expectation of pre-packaged solutions in stride and dedicate internal development teams to the effort, but smaller firms such as Valtech could not. “We want to leverage offshore for competitive advantage. It’s easy to cut costs with administration, business process outsourcing, and so on. The second level is in performing strategic activities at lower cost than the competition,” said Hardy.

In Valtech’s case, it was by developing pre-packaged solutions offshore. “All our units are still fairly independent due to our inorganic growth,” said Rohan Joshi, president of Valtech Offshore in Bangalore, “but there are some obvious opportunities for cross-border co-operation. For example, our biggest customer in Britain is T-Mobile, and in Germany it’s Vodafone. Valtech’s worldwide delivery center (WDC) in Bangalore will become the glue that holds the firm together—we’re getting into global strategies for services we can offer the customer.”

Valtech’s WDC used what it called an on-site-offshore delivery model to serve customers in all its markets. An on-site team worked with the customer to assess strategy, defined requirements, established project plans, and monitored progress. The bulk of the work thereafter took place offshore—with a single point of contact

between project managers and developers. “We believe that we need to have in front of customers people from the same culture who hide all the differences with India,” said Hardy. “Large Indian IT services firms essentially have Indians everywhere in the world. But we believe that every company has its own type of people, and the way to be global is to add people in different places together.”

While this approach came at a somewhat higher cost than a “pure offshore” delivery model, it minimized the risk to a client, and, at the same time, allowed Valtech to leverage its resources in India worldwide, as shown in Fig. 3.3 below. The opportunities were also apparent for cross-border collaboration between its offices in say, Britain and Germany, because the technical work could be assigned to a single dedicated team in Bangalore, while appropriate local Valtech offices handled client-facing issues.

Interestingly enough, Hardy argued that the greatest competitive advantage Valtech derives from its presence in India was scalability. The relative ease of rapidly finding and hiring large numbers of skilled workers in India compared to Europe gave the company a great degree of credibility when competing for large contracts. Many customers already knew that simply by virtue of having an established presence in India, companies like Valtech could take on far larger projects than would be possible if their operations were restricted to Europe. Underscoring the significance of the offshore location, the Valtech CEO even believed that before long the Indian office would become the company’s de facto headquarters.

With such focus, perseverance, and precision, it was no surprise that Valtech had begun to be short listed for large contracts with European and American multinationals, alongside competitors more than 10 times its size. And many of the new opportunities included maintenance and other activities that provided a smooth revenue stream.



Fig. 3.3 Valtech’s offshore hub in Bangalore: a common global operating platform (this figure is reproduced with kind permission from Schumacher, VLG © August, 2012)

3.5.5 Case Consult, Germany

The twists of fortune are such that, at times, serendipity charts out the course one takes. Case Consult's foray into offshoring is one such instance where the cart came before the horse.

Case Consult was a privately held IT services firm based in Wiesbaden, Germany. It was founded in 1988 and had about 200 workers worldwide; more than half of them were in India. It was the search for scalability that brought Case Consult to India's shores. As a result, the firm was able to take on projects that were unusually large for its size, and counted among its clients a growing number of businesses they would be unable to serve without their offshore presence.

Case Consult's first contact with India came about in 1992 when a German bank contracted it for a major database migration initiative. The bank had already spent several months on the project with a major multinational IT consulting firm, with unsatisfactory results. As a result, the bank was willing to take a chance with a newcomer, even though the project was larger than anything Case Consult had undertaken till then.

Seeking a solution, the Case Consult team visited a firm in Oakland, California, that had successfully undertaken similar database migration. Case Consult found that the global nature of the project was of surprising magnitude: The project leader was Chinese, and much of the heavy lifting was being done by Tata Consultancy Services (TCS) in India. This was at a time when the most efficient way to send data and code to and from India was by courier on a magnetic tape.

Case Consult's initial interest in this early offshore project stemmed from the fact that TCS and its client in Oakland were using the same data conversion tool that it wanted to use on the bank's database. "We'd never heard of India before," recalled Jens Borchers, Case Consult's technical director, "but we asked ourselves if our project could not be done globally as well."

Case Consult decided to subcontract TCS for the assignment. A few months later it established the first direct satellite connection between Germany and India—specifically for the project—which became TCS's largest project in Europe. Remembered Borchers: "At the time, we weren't even aware of the potential cost savings in India. As a result, the project was very profitable—for TCS." The project was a success, and Case Consult, TCS, and the German bank soon started a follow-up project.

The second project did not go smoothly. It fell prey to the drawback common in India: Employee turnover. Said Borchers: "The second project did not go as well as the first because many of the best people at TCS had left as soon as the first project was completed." While Case Consult's initial projects were not all resounding successes, they gave the firm crucial insights into the advantages that India had to offer as well as the potential pitfalls of doing business there.

In January 1995, the company opened its own office in Thiruvananthapuram in Kerala State in South India, with 10 people, making it the first German company to develop software in India. Over the course of the years, it expanded reaching a

staff strength of 120 people in 2005. In Thiruvananthapuram, claimed Borchers, the turnover rate was not as high as in Bangalore. Despite having set shop in India, infrastructure issues continued to plague the company. While India's less-than-dependable power grid meant that backup generators were simply part of everyday life, getting a suitable system installed and working could be a formidable challenge for a small company. But this was just one among the series of unexpected expenses it had to face. One of the first challenges was in getting workers to and from the office. "We ended up setting up our own public transportation system for employees," recalled Borchers, "and today we own three buses for this purpose."

With time, Case Consult's insights and experiences in India translated into significant wins for the firm and its customers. One completed project involved a programming language conversion of several hundred programs for an Austrian financial organization. As Borchers described it: "This project was completed in less than 18 months, a duration that other competitors of significantly larger size—and one which was even already a supplier to the client—had assessed as 'totally impossible'." Despite the fact that it was the first project of that size and the first undertaken using outsourcing, it was successfully completed within budget and within schedule. "This project would never have been possible without the Indian teams," contended Borchers. The client was greatly satisfied.

Said a jubilant Borchers: "We achieve about a 20 % cost savings by being in India, but our clients expect this anyway. But apart from the cost savings the real keys to competing are flexibility and scalability. Even when we were much smaller, we competed directly with large and established IT consultancies. Our presence in India allows us to scale easily for large projects, and makes it affordable for us to maintain a bench to absorb fluctuations in demand."

3.6 The Common Theme: Entrepreneurial Globalization

While the stories of DeDuCo, Telelogic, Valtech, and Case Consult may sound somewhat different, they all have a common theme: entrepreneurial globalization.

In each case, the senior managers had to first rethink the way they were doing business. DeDuCo started off with the need for access to talent but soon recognized the power of the offshore delivery model that allowed the firm to become a global player. Telelogic began with access to local market but soon recognized the power of using India as a global delivery platform. Valtech's journey from an access-for-talent point of view to an integrated worldwide delivery model may have lasted 4 years but what is important to recognize that the company transformed itself into a global player capable of scalability and flexibility. Finally, Case Consult transformed itself from a niche player to one that could routinely play with the big boys in the industry mainly through rethinking the way they do business worldwide using the Indian operations as a lynchpin.

Second, be it DeDuCo, Telelogic, or Valtech, the key lesson each company had learned was one of reconfiguring the value chain activities globally. Witness how

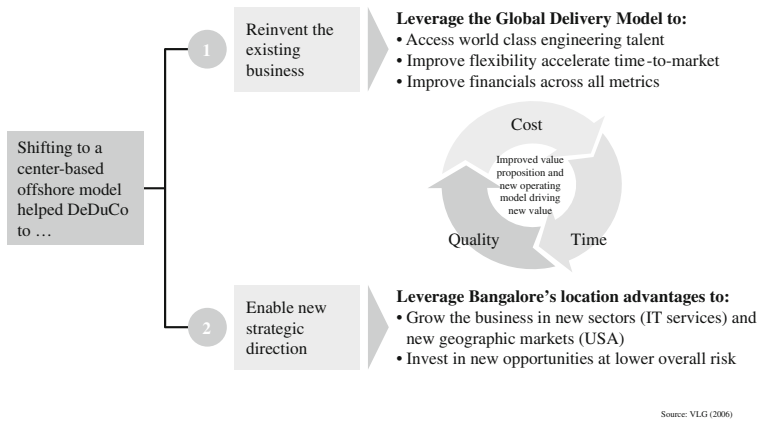


Fig. 3.4 Moving offshore helped DeDuCo reinvent itself and find new growth opportunities (this figure is reproduced with kind permission from Schumacher, VLG © August, 2012)

each of these companies distributed their activities and assets globally to deliver their services seamlessly worldwide.

Third, some of the firms initially relied on other firms’ resources to rethink and reconfigure their businesses. DeDuCo started with a local firm doing contract software development for the company. Later, as the firm realized that leveraging others’ resources may limit their opportunities, it shifted to locating in-house operations in India. Valtech started off with a joint venture and later shifted to complete ownership.

Fourth, and most important, all these firms did not simply stay strategically the same. Each of them used the opportunity opened up by their Indian operations to create new strategic options for itself. Witness how DeDuCo reinvented itself and found new growth opportunities (Fig. 3.4).

Valtech and Case Consult also moved from being niche players to more aggressive global players thanks to their ability to leverage their operations. In other words, new strategic options were created as well as exercised by these firms.

Finally, each of these firms had to come up with new organizational innovations to make a globally distributed capability model to work effectively. In the case of DeDuCo, one of the founders moved to Bangalore to ensure that the transition to such value activity distribution really worked. Other firms, however, had had to create new organizational processes and systems to make the global delivery model work well.³

³ This need to develop new organizational processes and routines to facilitate better coordination across geographically disbursed value chain activities is a good instance of the important role such conscious development of organizational capabilities play in entrepreneurially reinventing and implementing firm-level strategies. Other researchers have pointed out that such linkage economies (Zollo and Winter 2002; Marrone et al. 2007) permit not only coordination across value activities but also possibly learning and innovation (Mudambi 2008).

Perhaps, the most interesting conclusion to come out of our study of these European firms is how it may make us think differently about the process of globalization itself.

The traditional view of globalization is one of large, established firms seeking to extend their monopolistic advantages to new locations (Caves 1982). Typically, it involved replicating all the value activities in a new country creating completely self-contained units in many countries. It also meant relying largely on one's own resources and not on other firms' resources. Any reliance on other firms is largely through a simple supplier–buyer relationship. As for future growth and strategic evolution, such a view of globalization implies innovations as largely emanating from the center and moving to the periphery. Under such a globalization approach, organizational processes and systems tend to evolve slowly as the multinational firm, given its monopolistic advantages, is under no major pressure to recast itself dramatically to do well in the marketplace.

Contrast this with the entrepreneurial globalization we have outlined in this chapter. Here, the firms do not start off with any monopolistic advantages. Instead, the firms move abroad to create some new advantages. These firms do not create clones of themselves in new countries by doing all value activities in many countries; instead, they distribute activities worldwide as appropriate. Firms globalizing entrepreneurially are not reluctant to rely on other firms' resources as necessary. Indeed, in many such cases, leveraging other firms' resources is perhaps the best way forward for these firms. Moreover, entrepreneurial globalization calls for firms to be open to innovations all over the world. Given the distributed nature of their value activities, these firms develop a willingness to seek, recognize, and exploit new strategic options for growth wherever in the world they find them. Finally, slow-changing, bureaucratic processes and systems are not something that these firms can afford. They need to constantly and frequently adapt their processes and systems to make the global operations work effectively.⁴

We have listed these contrasts in the Table 3.1.

3.7 Managerial, Policy Level, and Research Implications

What are the implications of our research findings? We see them at three levels: managerial, public policy, and academic research.

At the managerial level, the most important insight that this research provides is that the nature of globalization is changing. Slow, bureaucratic way of globalizing

⁴ In the authors' assessment, over the last several years, both IBM Global Services and Accenture have transformed themselves into powerhouses in the global IT services industry through an "entrepreneurial globalization" process similar to what we have outlined above. Both firms now have more employees in India than in the United States but their global business reach has grown dramatically during this period. In the global medical systems industry, GE seems to have followed a similar approach (Khanna and Weber 2005).

Table 3.1 Traditional versus entrepreneurial approaches to globalization

	Traditional globalization	Entrepreneurial globalization
View of globalization	Extension of monopolistic advantages to new countries	Rethink the existing business and do it differently globally
Value chain activities	Replication of all or most activities in-house in many countries	Reconfigure value activities and distribute them worldwide partly in-house and partly with other firms
Use of other firms	Maintain control over most activities and use other firms mainly as arm's length suppliers of inputs	Gain leverage through other firms' resources through strategic partnerships
Future growth and strategic evolution	Driven from the center or headquarters and mostly incrementally	Create and exploit strategic options as they occur worldwide because of global configuration of value activities
Organizational processes and systems	Slow to change and the emphasis is mainly on managerial control	Change quickly to suit a more entrepreneurial firm where the emphasis is on customer value

belongs to a bygone era. As prosperity spreads across the world, as human capital accumulates in many countries, as innovations occur in many places in the world (Immelt et al. 2009), and as communications technologies keep improving, more and more firms will follow the path of entrepreneurial globalization we had outlined here. Second, as the center of gravity of global economy inexorably shifts toward Asia, the need respond with a proactive entrepreneurial globalization has acquired urgency in many firms. Third, operating in such a fast-paced and changing global environment may call for a more sophisticated, entrepreneurially oriented, and nimble set of managers than the kind of head office clones that large multinationals have traditionally promoted. In other words, entrepreneurial orientation needs to be imbedded in the managerial culture for firms if they desire to succeed in the new global milieu.

At the public policy level, we find that, contrary to all the hand wringing in the West, the companies that have moved to exploit global sourcing opportunities have not simply been opting for low-cost operations. The companies are more sophisticated than that. They have utilized the opportunity to reinvent themselves strategically, operationally, and organizationally. Global sourcing has led the companies to rejuvenate and grow. This implies that global offshoring/outsourcing may well be the new well spring of entrepreneurial growth and renewal in many developed countries.⁵ What is more, such renaissance may well be brought about

⁵ This assessment is strongly supported by the success of the Silicon Valley's Apple in recent years. It is now among the most valuable technology companies (WSJ 2012). Much of this success could be attributed to the way it disaggregates the value chain across hundreds of firms across the globe and managing that network flexibly and effectively as narrated in a long and insightful story in the New York Times recently (Duhigg and Bradsher 2012).

by small- and medium-sized firms who are less in the public spotlight and thus may escape the opprobrium that are heaped on large firms. Policy makers in developed countries would do well not to impede this rejuvenation process as it has long-term economy-wide implications. In other words, well-intentioned moves by policy makers to protect jobs in existing industries and firms with carrots and sticks for firms that are seeking to outsource/offshore activities may actually plug the very well-springs of future economic renaissance in Western countries.

As for academic research, we believe that we have only scratched the surface in this new area of globalization. If the entrepreneurial globalization process we have outlined here is more wide-spread and becoming the norm, what are the research implications? We identify here a few research questions.⁶ Are some industries more prone to the new globalization process than others? If so, what are the characteristics of such industries? Why are they more susceptible to entrepreneurial globalization than others? If, on the other hand, entrepreneurial globalization is likely to occur in any industry, can we document it? How do established firms in these industries cope with the pressures of entrepreneurial globalization? How do firms find, accept, and adapt to new, globally oriented value activities distribution models? How often do these distributions change? What are the managerial implications of such changes? How do firms change their organizational processes and systems to suit the world of rapid entrepreneurial globalization? What are the implications of these changes in the competitive landscape? How do these changes wrought by entrepreneurial globalization affect customer value migration, speed of adoption of new technologies and processes, business models, and strategies of firms in the West as well in the East?

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⁶ The authors of this chapter are working on a long-term research project looking at many of the research questions listed here.

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