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Globalization and the Breeding of Advanced Service Ventures in Emerging Economies

LUIS E. PEREIRO

Center for Entrepreneurship & Business Venturing

Universidad Torcuato Di Tella

Miñones 2177, 1428 Buenos Aires, Argentina

Phone.: (541) 783-3112 - Ext.191

Fax: (541) 783-3220

e-mail: lpereiro@utdt.edu

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GLOBALIZATION AND THE BREEDING OF ADVANCED SERVICE VENTURES IN EMERGING ECONOMIES

ABSTRACT

Globalization in emerging economies has been frequently blamed of generating industry concentration and pushing domestic entrepreneurs out of business. Although this may be true for low-skilled, traditional family ventures, this paper suggests that globalization-induced foreign direct investment may also be a prime force in nurturing a new breed of growth service companies, which use a conspicuous set of advanced managerial skills and thrive as a result of the new outsourcing logic now operating in most multinational corporations. The globalization process is also a self-fueling one: it fosters the emergence of advanced service ventures and these, in turn, force more globalization in other economies. This paper develops and tests theory on these 'advanced' ventures as they are spreading in one of the ten largest emerging world economies. A three-stages, holistic, multiple-case research design allows for identifying the six features that characterize this type of growth ventures: concentration on core capabilities, upstream and downstream innovation, customer management, technology enablement, human resources focus, and regional/international expansion.

Keywords: Globalization. Corporate restructuring. Emerging economies. Growth service ventures.

GLOBALIZATION AND ENTREPRENEURSHIP IN AN EMERGING ECONOMY

Globalization and its agent, the expansion of the multinational corporation, have been blamed of fostering unemployment and killing domestic entrepreneurial drive in emerging economies through increased concentration (Garten, 1997; Gladwin, Newburry & Reiskin, 1997; Hart, 1997; Korten, 1995). This paper argues, however, that it may also promote the development of highly-skilled service ventures which function as partners in the outsourcing logic now widely present in large corporations. The paper proceeds as follows: first, it discusses how corporate restructuring in the form of downsizing and outsourcing strategies have bred a myriad of new ventures in the U.S. economy within the last 20 years. Second, a model of strategic change in an emerging economy is presented, showing that the revamping strategies used there very much resemble the American tactics; it is also explained how a new kind of growth service venture is bred in the process. Third, the three-step, holistic, multiple research design used in this study is discussed. Fourth, three cases belonging to both high-tech and low-tech industries are described. Fifth, analytic generalization is made over the cases and the features of advanced service ventures are detailed. Implications and suggestions for further research are outlined in the last part.

CORPORATE RESTRUCTURING BREEDS NEW VENTURES: THE U.S. EXPERIENCE

Using a longitudinal research design spanning over 20 years, Kotter (1995) could describe the dramatic structural changes happening in American business after 1973, the year that the Arab countries increased the oil price by 70%, causing the world oil crisis. Business firms in the U.S. were at the time large bureaucracies, and Japanese competition forced them to start a painful downsizing process where employees were massively dismissed. Coupled with downsizing came outsourcing, i.e., the subcontracting of internal functions to outsiders. A case in point was the American car industry, which was rapidly challenged by emerging Japanese manufacturers who reacted much faster in offering vehicles which were less dependent on oil consumption and consequently more economical. To a large extent, outsourcing practices in American business were efforts to match the Japanese proficient usage of superior supplier networks, which provided a true cost advantage (Banerji & Sambharya, 1996).

Outsourcing is a value-chain slicing process where whole chunks of business functions are transferred to capable, usually more specialized and cheaper external providers. Outsourcing severes ownership ties between the corporation and its internal functions [1] and replaces them with supplying agreements with third parties. Outsourcing may proceed in three depth levels:

a. Peripheral or tactical outsourcing means subcontracting non-core, typically staff activities to external partners; usual cases are information technology (IT) and telecommunications services, accounting and human resources management functions, cafeteria, cleaning, and facilities security. The word 'peripheral' is not intended to convey a sense of little importance; although a support activity, the IT function, for instance, is growingly essential for operating the business in the present information era.

b. Strategic outsourcing means subcontracting core, line functions to external outsourcees; logistics and sales in a consumer company are examples. Strategic outsourcing is much more than traditional customer-supplier subcontracting; it is rather a partnership-oriented alliance calling for a deeper level of involvement.

c. Mission 'outsourcing' (or mission abandonment) represents the extreme and means exiting a current line of business, usually through selling it to a more specialized company (normally a foreign company) operating in that industry. While tactical and strategic outsourcing are vertical disintegration processes, mission outsourcing is a horizontal one.

The economic rationale for outsourcing may be found in basic transaction costs economics: it pays to outsource when the costs involved in internally delivering and coordinating functions are larger than the costs of doing so via external suppliers. The trend to outsourcing is partly explained by (a) the decrease in communication costs, severely reduced by modern information technologies; (b) the appearing of new logistical systems which allow for reduced distribution costs and improved customer service levels; and (c) the existence of truly enforceable contractual arrangements which ensure supplier compliance.

For the outsourcer, concentrating in core activities or capabilities (Quinn, 1992; Hamel & Prahalad, 1990) provides the firm with economies of scope allowing for cost and price reduction, and hence improving competitive positioning (see Besanko, Dranove & Shanley, 1996; Bleeke et al., 1993; Gomez-Mejía & Palich, 1997; Sirower, 1997). Quinn (1992) has provided ample evidence of the pervasive deployment of outsourcing strategies in the U.S., documenting its use even in manufacturing firms like Nike, which does not own a single shoe production facility, or Apple Computer, who contracts out 70% of the cost of each PC it sells.

Downsizing and outsourcing shrink the corporation, seriously hampering career opportunities, and many well-educated managers turn to launch small businesses which function as outsourcees of the larger companies. The restructuring of the American business landscape, then, has bred a new race of outsourcees, usually small and medium sized firms which cater to the particular needs and operating fashion of large corporations, particularly in service businesses like consulting and finance (Kotter, 1995).

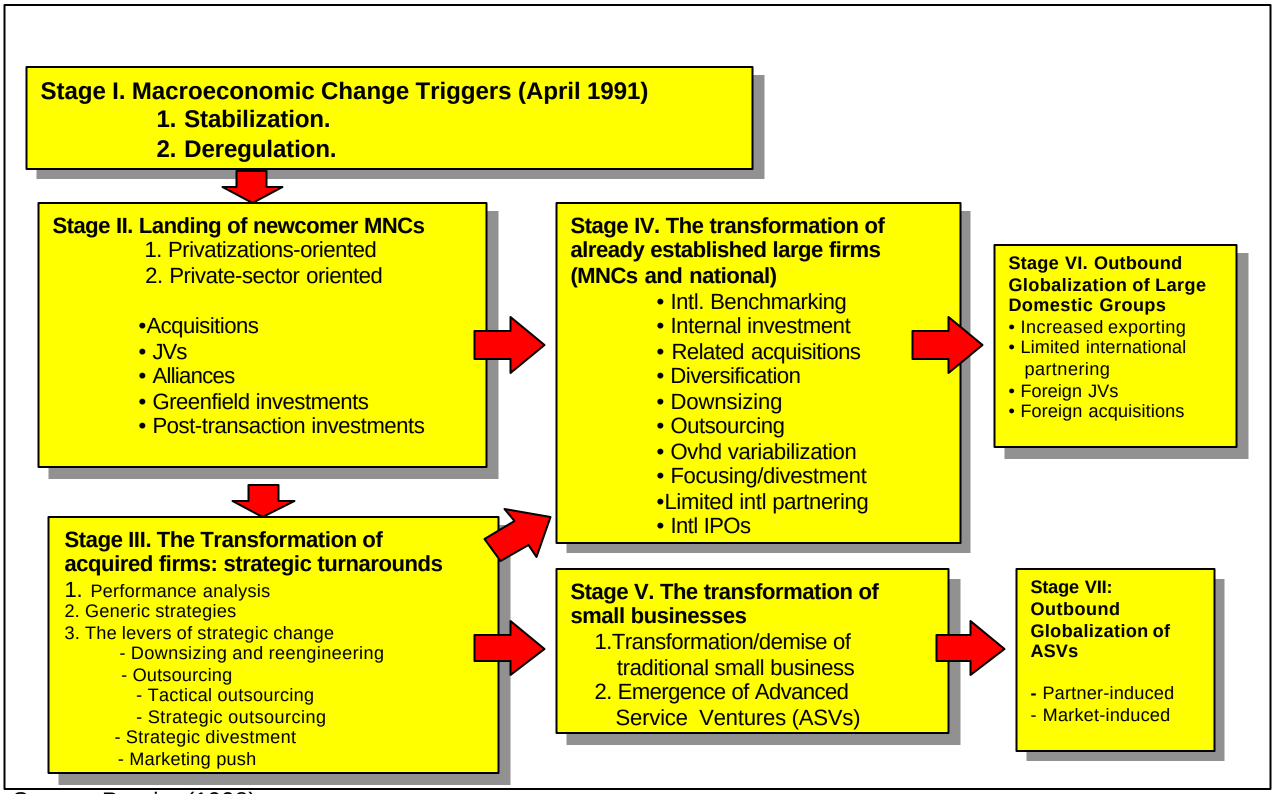
GLOBALIZATION AND OUTSOURCING IN ARGENTINA

An economy goes global when it rapidly increases the density of cross-border organizational linkages. In other terms, globalization means the accelerated increase in commercial, financial and informational flows with other economies, embodied in tangible components like trade, investment and exchange of managers, and intangibles like the infusion of new business practices and know-how into the host-country partners [2].

Considered one of the ten big emerging markets (BEMs) of the world [3] , Argentina is an interesting example of a rapidly globalizing economy. A full model of its micro-level transformation within the 1991-1997 period is depicted in Fig.1. Stage 1 shows that substantial macroeconomic change (basically an unusually low inflation rate and strong incentives to foreign capital entry) induced a rapid increase in foreign direct investment (FDI, Stage 2). FDI grew at an annual compounded rate of 314% within the 1991-1997 period, reaching a sizable cumulative amount of $ 36.7 billions, in the form of acquisitions (56% of all transactions), far followed by joint-ventures (9%), greenfield ventures (8%), and strategic alliances (3%), while mergers were very few (0,4%). Internal expansion, on the other hand, absorbed the remaining 23% of all transactions (Pereiro, 1998).

FIGURE 1

A Model of Corporate Change in Emerging Economies: The Argentine Case



Source: Pereiro (1998)

This FDI inflow provoked severe dislocations in the business doing. As shown in Stage 3 of Fig.1, the acquired companies were turned around, fastly improving productivity. This fueled the restructuring of already established large companies, both national and multinational, which had to mirror the efficiency gains of incoming competitors in order to survive (Stage 4). Two popular transformation tactics were used, being very much the same as those applied in the U.S. restructuring process, namely downsizing and outsourcing (D/O). At the economy level, downsizing routines resulted in tremendous productivity gains; these have been estimated at 7% per year since 1991 (see Table 1).

TABLE 1

Argentina 1989-1996: Selected Indicators

	1989	1990	1991	1992	1993	1994	1995	1996
1. Inflation rate (%)	4,923.6	1,343.9	84.0	17.5	7.4	3.9	1.6	0.1
2. GNP growth (%)	-7.0	-1.3	10.5	10.3	6.3	8.5	-4.4	4.3
3. FDI, privatized companies (millions of $)	na	2,480	2,298	4,827	4,453	615	1,477	374
4. FDI, private companies (millions of $)	na	40	40	25	186	2,488	4,332	3,491
5. Total FDI (millions of $)	na	2,520	2,338	4,852	4,639	3,103	5,809	3,865
12. Average labor productivity growth (%)	na	-2.6%	6.6%	7%	5.2%	8.8%	-2.0%	3.1%
13. Unemployment rate (%)	8.1	8.6	6.9	6.9	9.9	10.7	18.4	17.1

Sources: INDEC, CEP, UTDT FDI Database.

The use of tactical and strategic outsourcing increased fastly in both conglomerates and single-business, large and small companies alike. A 1996 survey sampling 625 companies from a wide array of sectors and sizes showed that 46% of them were outsourcing; the figure climbed to 52% when only larger companies were considered (see Table 3). Another 1997 survey confirmed such results: 53% of surveyed companies were involved in outsourcing; only 16% of them were neither doing nor willing to subcontract (see Table 3).

TABLE 2

Argentine Companies: Productivity Improvement Programs

Type of Program	Is doing	Plans to do	Does not do
Product quality improvement	80%	70%	3%
Personnel training & development	85%	15%	-
Plant safety	79%	18%	3%
Environmental protection	64%	20%	16%
Reengineering & downsizing	59%	28%	13%
Financial reengineering	51%	10%	39%
Outsourcing	53%	31%	16%

Source: Instituto Argentino de Ejecutivos de Finanzas (1997).

TABLE 3

Argentina: Outsourcing Trends

	Headcount	< 6	6 - 20	21 - 50	51 - 400	> 400
Number of firms in sample	597	155	118	101	112	111
Outsource	46%	45%	41%	47%	47%	52%
a. Accounting	27%	48%	33%	30%	11%	7%
b. Payroll	20%	22%	27%	15%	21%	14%
c. Data processing	13%	9%	8%	11%	17%	21%
d. Logistics & physical distribution	12%	4%	2%	21%	15%	22%
e. Operations	10%	4%	19%	6%	13%	9%
f. Other	35%	42%	27%	28%	40%	40%
Do not outsource	51%	55%	57%	50%	47%	41%
NA	3%	0%	2%	3%	6%	7%

Source: Total Research survey for Mercado Magazine, August 1996

Examples of strategic outsourcing in Argentina abound: Quilmes, the largest brewery in the country, and the local subsidiaries of Hewlett Packard, Ford Motor, GMC and Reckitt & Coleman outsource their physical distribution activities; local AGD, one of the largest worldwide oil exporters, Kellog's, Eveready, Abbot, Revlon and Clorox, all outsource their selling functions in the domestic market. As to mission outsourcing, Bunge & Born, a $ 1,6 billion domestic conglomerate whose historical operating core had been grain trading, provides a good illustration; the group, which diversified widely during the 1960's, reversed to concentration in 1992; it sold its consumer chemicals division to Procter & Gamble, its textile division to Alpargatas Santista (a Brazilian company) and its paint business to ICI, the chemical British company; it only kept Molinos, their flagship company in the consumer business, the largest food processing firm in the country –but not for long: Molinos is now for sale in the international market; B&B will keep its grain trading business only, where it all started; in two words, back to the basics.

At least three reasons may explain the popularity of deverticalization strategies in Argentina:

a. *The acceptance of a new business logic.* Two decades ago, MNCs entering foreign markets would bring with them the logic of high volume, low unit costs, little customization and vertically-integrated, tight activity control of the value chain. At the end of this century, however, fragmenting the corporation turns out to be a value-creating process. Since new microchip-based technologies allow for cheap, quick and precise coordination between business actors (Quinn, Doorley & Paquette, 1990), the traditional, linear organizational hierarchy can be replaced by networks to which each actor contributes a unique core skill or capability (Evans & Wurster, 1997; Hamel & Prahalad, 1990; Quinn, 1992). These fuzzy, ever-changing, loosely-structured networks have been called value-adding partnerships (Johnston & Lawrence, 1988), value constellations (Normann & Ramírez, 1994) or hyperarchies (Evans & Wurster, 1997). Network thinking was very influential among the managerial community in Argentina, providing a world-class rationale, so to speak, for justifying fragmenting the corporation. As a result, 'hollowing out' the firm is no longer an attitude to be ashamed of; it is deemed as a power-leveraging rather than a power-leaking business strategy.

b. *Availability of outsourcees*. Specialized, skilled and reliable outsourcees, frequently IT-enabled, are critical to outsourcing. For instance, Techint, a large engineering company with an annual turnover of $ 750 millions, no longer insources the blueprinting and detailed engineering of large construction projects, but rather subcontracts them to smaller companies working with state-of-the-art CAD technology; these provide much cheaper, flexible and faster response than any wholly-owned structure. In addition to local partners, world-class outsourcees are also locally available; Ryder, the logistics operator, entered the country in 1996 hand in hand with the comeback of GMC, which outsources all their autoparts trade logistics with Brazil to Ryder. In the IT/ telecom businesses, EDS disembarked in 1994, providing services to many large companies.

c. *Availability of consulting companies to help in the reengineering process.* Shrinking a company while keeping it operational is no easy endeavor. Survivors of a downsizing must overcome the loss and trauma associated with lay-off; they also have to be re-trained to be able to attain higher efficiency levels. These two processes are at odds with each other, and usually call for expert external advice. Consultants provide not only specific tools for managing the uncertainty of massive change efforts but also help in sustaining the needed momentum. Most international blue-chip strategy consulting companies like McKinley, ADL, BCG and Bozo Allen settled in the country, providing advice to most large groups under restructuring.

As to the small and medium enterprises (Smells, Stage 5), traditional family Smells started collapsing in droves; at the same time, corporate outsourcing started breeding a new kind of small business ventures. Like in the U.S. case, and although clearly traumatic for large companies in transition, the D/O syndrome generated business opportunities not only for incoming, wold-class outsourcers but also for new local companies with alike entrepreneurial ethos and skills. In short, outsourcing fostered the emergence of small, highly-skilled, fast-reacting domestic outsourcers. Finally, globalization bred itself; Stage 6 shows that increased domestic competition pushed large companies to look after foreign markets, where they could now compete on an equal foothold with locals.

RESEARCH DESIGN

Notably absent from the literature on globalization and corporate change are the nature and characteristics of domestically-bred small service outsourcees. Quinn (1992) has restricted his attention to large multinational service providers operating in the U.S. arena but did not touch upon domestically-induced service ventures thriving in transitioning economies. This is a true gap since, as partners of necessity in many deverticalization strategies (and also as agents of further globalization, as I will later argue), domestic outsourcees merit closer attention.

The purpose of this research was to build and test theory on these ‘advanced’ domestic service ventures in emerging economies, using a three-stages, holistic, multiple-case research design (Yin, 1994), which proceeded as follows:

First case study. A growth service venture in the information technology (IT) sector was studied in depth. The selection of this first case was a convenience one, dictated by the ample access to the organization provided by a year-long consulting assignment, which involved quite frequent interviewing with the CEO, first line managers, middle managers and line workers; this was coupled with a thorough analysis of corporate financial and operational records. In fact, it was this ethnographic study which suggested we could be in the presence of a new organizational type, different from both large corporate providers and more traditional SMEs in the country; a type of new venture I dub ‘advanced’, since used specific, differential levers to gain and maintain leadership positions in its segment.

Research questions. In the next stage, I tried to provide answers to the following questions: Were we really in the presence of a new breed of SMEs, quite distinguishable both from larger outsourcees and smaller, low managerial technology firms? If so, what were its distinctive features? Why and how did they develop? Were corporate downsizing and outsourcing the key inducements to the formation of such outsourcees? In addition, Yin’s (1994) plea to look for a rival theory suggested the following issue: if we were really witnessing a new kind of service venture, then its features should show some degree of stability across industries and not be idiosyncratic to a specific activity segment; this proposition should then also be tested.

Theory building and case protocol. In order to develop a theoretical framework, I stated the following main research question: what are these new venture's characteristics that function as key competitive advantages, making them 'advanced' service ventures (ASVs), and differentiating them from the competition? In other words, which features provided true competitive advantage to the incumbent firm? The first case study allowed to draw a preliminary list of salient organizational features. Next, the list of features was tested for similarities with Quinn's (1992) description of large American outsourcers and outsourcees. If we assume that a certain level of organizational isomorphism must be present between these types, then Quinn's (1992) description could provide some clues as to infer characteristics of small outsourcees. A list of features was hence developed and, in the end, it worked as a specific case study protocol to look for replication through other cases.

Replication logic. Two more cases were next developed to gauge the stability of the features found so far and to add to the potency of the theoretical blueprint through literal replication (Yin, 1994). Personal networking and a business literature search allowed for detecting two ventures which, as the first one studied, were growth outsourcees successfully thriving in the service sector. The second selected case, like the first one, belonged to a high growth, high-tech industry (telecommunications). Following Eisenhardt's (1989) call to choose as different a case as possible, the third venture was selected from a rather pedestrian, unglamorous industry: office supplies. All corporate owner-CEOs of the three ventures were interviewed in-depth by a two-people team of researchers sharing the original case protocol.

Cross-case conclusions were next sought. We did a process of cross-case iterative, analytic generalization and, as a result, some key characteristics were dropped from the original list. The remaining features were matched with each case in a table format, showing the degree to which each of them was present in the cases studied (see Table 4).

TABLE 4

ADVANCED SERVICE VENTURES: KEY CHARACTERISTICS

Basic Data	ITS	RT	Office Net
a. Yearly Sales (M$)	20	300	12
b. Sales, Compounded Annual Growth Rate (%) (1)	100%	170%	1,200%
Key Structural Features			
1. Clear vision of core capabilities / Controlled Diversification	***	***	***
2. Bi-directional Innovation	***	**	***
3. Customer bureaucracies management	***	***	***
4. Technology Enablement	***	**	***
5. Human Resource Focus	***	*	**
6. Regional/International Expansion	***	**	*

(1) Over the existence of the firm. The asterisks show the degree to which each feature is present in each case.

Research quality criteria. Special attention was dispensed to ensuring construct, internal and external validity, and reliability as well. Construct validity was improved by using multiple sources of evidence in the first case and by having key informants review drafts of the case studies reports in all three cases. Both internal and external validity were addressed through pattern-matching (Yin, 1994) among cases, replication, and the challenging of an equally plausible rival theory (which said that ASV's features are industry-dependent and not universal). Reliability was taken care of by developing a simple but consistent case protocol.

In the next section, the three cases studied are briefly described. In the subsequent section, their key organizational features are discussed in depth. Finally, I derive some general conclusions and suggestions for further research.

ADVANCED SERVICE VENTURES: THREE CASE STUDIES

ITS: A Star is Born

In June 1989, when his boss at Hewlett Packard Argentina (HPA) told him that the personal computer (PC) was never to be as important a business as mainframes, Tobías Schmukler knew his days in the corporation were counted. Schmukler was at that time the team leader of the local PC development plant in Argentina; HPA realized that domestic sales had too little potential to support the venture and the project was terminated. Two weeks later, from the living room of his house, Schmukler started Informática Tecnología Servicios (ITS), a small venture providing information technology services in micro-informatics. ITS grew exponentially in sales and headcount due in large part to the transformation in the economy since 1991, and it is now a $ 20 million, 230 people company serving more than 30 large local and international corporate clients like Unilever, Shell, Techint, Molinos, Hoechst, CPC, American Express and McDonald´s.

ITS started modestly by servicing HP printers for corporate clients like Exxon and Dupont. Schmukler technical skills drove him to in-house develop a printer interfacing device which was successfully sold to many major corporations. In 1991, however, Schmukler realized that customers' interest was shifting from hardware to software solutions, and started supporting corporate customers which value-adding services like IT helpdesk, infocenter operation and maintenance of complex PC networks.

To guide growth, Schmukler devised a powerful marketing and operational metaphor he dubbed "the integrated experience cycle": ITS personnel first became knowledgeable supporting day-to-day IT operations of customers, then were ideally positioned to consult for and educate them. Since they also work in support activities, all ITS consultants and instructors know the real world of customers and are able to deliver solid, down-to-earth, credible advice and training.

Crucial to ITS' mission was a strong investment in human resources to become certified by leader worldwide vendors on the core capabilities of the integrated experience triad: support, consultancy and education. Microsoft certified ITS staff in 1994; Novell followed suite in 1996. In May, 1997 Bill Gates personally handed on Schmukler the Microsoft Award of Technical Support Excellence; the same year, Novell recognized ITS as the best supporter in Latin America. In consulting, ITS invested a sizable amount to send 20 engineers to Microsoft premises in the U.S. for a year-length period to become certified consultants; upon training completion, Microsoft will outsource a big chunk of its growing consulting business in Argentina to ITS. As far as education is concerned, ITS launched the Advanced Education Center (CEA) in downtown Buenos Aires in June, 1996; the CEA rapidly enlisted 120 blue-chip corporate clients, and was awarded the best educator center tag by Microsoft in Argentina and by Novell in South Latin America. To date, ITS is the company with the largest number of certified Microsoft engineers in Latin America, including Mexico and Brazil.

ITS defines its core skill as providing integrated, IT based, value-creating business solutions to corporate customers. Within an ever-changing, multivendor IT environment, the ability to integrate many different hardware and software platforms becomes a critical, frequently sought capability. ITS excels at the complex task of coordinating various specialist teams championing competing technologies for the same customer.

ITS provides good examples of both outbound, client-oriented and inbound, efficiency-oriented innovations. Take the case of help-desk: despite its importance to support internal business operations, help desk is a commodity-like activity where trained operators are available around the clock to solve information systems-related problems of users in large corporations. Being put under price pressure by other smaller, cheaper competitors, ITS started using data mining of failure reports to suggest breakthrough technical improvements in customers' operations; ITS' managers started participating in top level discussions on productivity and technology investments at clients premises, quickly differentiating from the thundering herd of help-desk providers.

Help desk settings are also human intensive, highly-stressful, rather uninspired environments usually plagued by high operator turnover. Operators are usually part-time university students which, after gaining experience, wish to be transferred to more enriching posts; this causes organizational strain, since neither the provider nor the customer want to dispense with qualified operators who already know company procedures and preferences. As a solution, ITS made an arrangement with a not-for-profit organization which helps socially endangered, marginal youngsters. ITS offered to recruit and train a group of these people on its own expense. As these people do not feel the urge to climb the organizational ladder, they proved to be a very motivated, highly-reliable, low-turnover workforce –while at the same time a high-impact, socially desirable side-benefit was achieved.

ITS provides a good illustration of partner-induced outbound globalization. ITS services McDonald´s cash-registers in its 120 outlets in Argentina. Clearly, maintaining this equipment operational is mission-critical for the assembly-like service chain McDonald´s outlets are. When McDonald´s approached ITS to request support for its 6 outlets in neighbourghing Paraguay, ITS quickly saw the the opportunity to gain international coverage through the partnership. ITS de Paraguay was launched as a wholly-owned subsidiary and used its operational base to quickly capture business with Unilever and Shell, two clients already being served in the home country. An advanced education center was also launched in Paraguay, and quickly put local, lower-skilled competitors in big trouble.

Being IT an increasingly globalized environment, international expansion is a must for ITS; it will open subsidiaries in Perú and Ecuador by 1998, and hopes to cover Latin America by the year 2000.

RT: Dancing with the Giants

RT started operations in 1992 as a cellular phone units importer. Its three founders, Otero, Fox and Graña, had met each other bargaining in different sides of the same counter: the first large Argentine privatization, that of ENTel, the then country monopoly telecom operator. Otero had been the former CEO of NEC in Argentina and was assigned as the Marketing Director of Telecom Argentina, one of the two operators in which ENTel was divided up when privatized. Fox, who had been Commercial Attaché in the Argentine consulate in the U.S., was an advisor to the Argentine government team steering the privatization. Graña was the head of the Latin-American M&A division of the Morgan Bank, which actively participated in the privatization process. Having assembled substantial experience in the communications business, the three executives saw an exciting growth opportunity in the cellular phone market and left their former companies to launch Representaciones de Telecomunicaciones (RT) sa.

RT hammered out a very simple agreement with Nokia, the Finnish cellular phones manufacturer, and started importing Nokia units to Argentina and supplying the five cellular operators (COs) which were emerging in the country: Movicom, Miniphone, CTI, Unifón, and Personal. At first sight, importing the units seems to be a rather pedestrian activity of which COs were capable enough to take care of through the bureaucratic structures of their parent companies, the telecom operators (TOs): Bell South, Motorola, AT&T, GTE, France Telecom, Stet and Telefónica de España. Following the core competence concentration principle, however, COs chose to focus on what they knew they did well: marketing the cellulars and providing the communication service. Importing and servicing the units were tasks left to RT and to other outsourcees.

RT sold 700 units in the first year of operations. In 1997, it sold 370,000 units. By the end of that year, it was selling 90,000 units *monthly*. Through RT, Nokia got a 42% share in the domestic market, with Motorola in a second place with a 35% share. In 1997, RT became the third largest telecom equipment supplier in the country, third in place after Siemens and Ericsson.

RT clearly spells out its mission as searching, acquiring, importing, servicing and financing new technologies' acquisition for TOs. RT searches for the worldwide best technologies and suppliers in consumer electronics, preferring in general to deal with industry second-tier players; these are much easier and faster to deal with than larger, more bureaucratic companies. RT is keenly aware of new trends in consumer saliences; for instance, although historically the key reason for buying a cellular was mobility, customer concerns are now shifting to family safety issues; there is a fast growth of cellular services specifically targeted to the parents of kids, teens and youngsters; ITS is then surveying PCS technologies, which are particularly well-suited suited to those needs. Due to the country extension, RT is also surveying rural telecom technologies, supposed to be the next growth market in the country.

RT has a well-tuned importing and distribution cycle which allows for carrying very little stock of end products. In servicing, RT claims to provide the best maintenance service to cellular units owners in the country. With a team of 30 technicians, RT claims to have a mean repairing time of 24 hours, just a 6% of the time featured by their next largest competitor.

Financing also proved to be a value innovation area for customers. Argentina has a strong cellular penetration potential; Sweden commands a 28% penetration rate, the U.S. a 16% rate, and Argentina 4% only. One key to increase sales volume is to reduce prices for final users. RT management realized that the units cost on average $ 300, half the full cost of activating a new customer of a cellular service. To increase business turnover, RT had to make easier for COs to finance their purchases; since RT was a service firm with a very modest equity in its balance sheet, it could not secure massive import financing to be translated to the COs. In response, RT spun off RT Financing, a subsidiary company which designed a commercial paper backed up by promissory notes issued by the COs; the instrument provided bridge financing for the COs acquiring Nokia units. Since COs are reliable debtors for they belong to blue chip parent companies, the innovative, three-year term RT bond is traded in international markets and allowed COs to finance their international purchases at the lowest interest rates of the market (8%). This securitization process was a success and pumped up sales turnover of operators, which now practically give away the units for free, increasing cellulars penetration and RT sales in particular.

In contrast with ITS, RT provides a good example of market-induced outbound globalization. In 1995, Brazil started opening the telecom industry to private participation in satellite and cellular communications; being the largest telecom equipment market in Latin America ($ 8 billions as of 1997), it became a prime target for RT expansion. RT first entry attempt was, however, a failure; the firm lost $1 million in the trial; the reason was it had no local partner to help in dealing with the nuances of the local market. Despite this lesson –or better, because of it— RT has now secured a Brazilian partner. Within a framework of increasing economic openness, RT will enter Brazil for the second time in early 1998.

Although the ITS and RT stories may suggest that ASVs flourish mainly in high-tech-related businesses, the next vignette clearly shows this is not necessarily the case.

Office Net: Managing the Non-Strategic Investments

While working with a local water-dispenser supplier in early 1997, A.Freyre (25) and J.Bilinsky (27), almost fresh out from the university, realized that Argentine companies devote on average $ 1,000 per employee per year in miscellaneous office supplies, from coffee to furniture to stationery, with an average of 12 different suppliers per company. With the support of their employer and that of an individual "angel" investor (a former BankBoston CEO) they raised $ 2 million to start Office Net, a catalog office supplier.

Office Net carries an average of 10,000 items in stock which may be selected through both Internet and a prime-quality printed catalog. Orders are received via PC, fax or phone and are filled out in 24 hours. Using the list of 19,000 points of sales daily served by the water-dispenser business, the new venture captured 1,500 corporate clients in its first six months of operation, at average sales of $ 4,8 millions a year with a headcount of 80. At the end of the first year of operations, their customer portfolio amounted to 5,000 active customers, with 12 M$ in sales and 150 employees.

The fast growth of the company may be attributed to its innovative approach which quickly differentiated it in an industry characterized by unimaginative competitors and large fragmentation (in the U.S., there are 7 large and some 3,000 small office suppliers; in Argentina, there were 15,000 small suppliers and not a single large company).

A truly value-adding, customer-oriented blueprint was developed. First, the company designed a unique high-quality catalog (250 page-long, glossy paper, colorful, with 800 high resolution photographs for quick product identification, and detailed data on formats, country of origin, unit price, discounts and estimated savings) unheard of in the office-supplies sector. The company claims to offer up to 40% on average savings in the procurement of non-strategic office items through its centralized buying power; the claim is substantiated product by product in the catalog. Second, a sophisticated on-line order taking phone system was installed (also allowing for placing orders through fax and Internet); several dozens of trained operators were assigned as account officers and started establishing friendly, loyalty relationships with customers. Standard problem solving procedures were developed and enforced throughout the system. Third, free delivery was enforced and guaranteed within a 24 hour window. Finally, a call center for service level monitoring was fully implemented, closing the loop of customer care and also looking for additional business.

Innovation in offerings was also sought. Defining itself as an encompassing solution provider in office supplies, Office Net started developing special product/service offerings for corporate customers; as an example, they teamed up with a coffee-maker manufacturer and a traditional ground coffee producer to develop a special pouch, guaranteeing fresh coffee dispensing at any time in the office environment. They slowly added other higher value lines like office equipment (fax machines, photocopiers, calculators and even personal computers), and plan to soon launch their own line of supplies under the Office Net brand, very much resembling the private brand strategies of large supermarkets. However, management closely monitors all diversifying efforts to ensure focus maintenance on original core competencies: the service business. Physical distribution, for instance, is outsourced to a third party through an exclusivity arrangement in vehicles identified with the Office Net logo, hence showing a seamless image-- from catalog to physical delivery—to the customer.

Technology proved also to be a key enabler of differentiation. A custom-designed software application and on-line order-taking hardware allowed for providing detailed advice to customers on product usage and on deciding on different product alternatives; and also for automatically checking the credit status of the account. Customized service was also made possible; a single corporation may appear in Office Net customer database as more than 60 different accounts, each for a different geographical location (in the city or within a corporate building). Thorough analysis of the transaction database permits identification of geographic areas at a micro level according to ‘transactional density’, allowing for more efficient scheduling and dispatch blueprints.

Personnel training was also an utmost concern. Each line operator went through a 2 month intensive operational training program, on transacting with customers, products information and problem solving. Both Office Net partners, in turn, travel twice a year to the U.S. and to Europe to carry out a detailed operational benchmark (stock intensity, fill rate, delivery times) with similar companies in advanced economies.

The Office Net case shows that corporate outsourcing is not restricted to high value-added products or services; low-tech, low value, frequently bought corporate items may also represent a substantial business opportunity for creative entrepreneurs.

ADVANCED SERVICE VENTURES: KEY CHARACTERISTICS

Outsourcing is clearly not a new phenomenon in Argentina or any other country, for that matter. What is new is the extent and importance of outsourced functions. In emerging economies, it is a pervasive restructuring tactic in both incoming and established corporations; outsourcing provides a fertile ground for seeding advanced, highly-skilled providers: the advanced service ventures (ASVs).

Generally speaking, Argentine traditional SMEs can be characterized as sluggish, business-to-customer, asset-intensive, market induced, domestically- and product-oriented companies. Advanced service ventures, on the other hand, seem to bear opposite features, being growth, business-to-business, human-intensive, outsourcing-induced, internationally-oriented service companies. The word 'advanced' means that, within the service sector, these ventures use a conspicuous set of managerial technologies which differentiate them from competitors. Each of such features is discussed next.

A Clear Vision of Core Capabilities/Controlled Diversification

Core skills –the theory of the business- are nurtured and talked about widely within ASVs; they become overarching principles for guiding behavior in an ever-changing environment, and for conceptualizing one's own standing in the competitive arena. Office Net, for instance, provides the benefits of centralized procurement (lower price), easy electronic ordering, only one contact point and invoice (this is possible since being non-strategic expenses, corporations have no need to request multiple vendor quotations), and unmatched customer service: neither internal corporate procurement areas nor competitors can meet Office Net's strict 24-hour time window.

ASVs permanently survey shifts in technology and demand. They explore all possible business opportunities, partners and technologies. For example, ITS is investing in its Internet Consulting Group and in the exploration of virtual learning environments for distance corporate education; these sectors are deemed as the next future growth areas of the company. However, expansion is restricted to core areas, extensively outsourcing non-core functions, as ITS does in accounting and payroll functions, and Office Net in physical distribution. This network-based business model exacts specific skills from actors; they must be proficient at interface and boundary-spanning roles management. Coordination (Quinn et al., 1990: 67), negotiation, bargaining and contracting abilities become crucial success factors.

Bi-directional Innovation

ASVs craft innovative, value-adding solutions both upstream and downstream. *Upstream innovation* targets internal customers, improving operational efficiency and profitability. ITS's project tracking software and Office Net's logistical database are cases in point. *Downstream innovation* calls for developing unusual offerings for external customers as a way to foster loyalty and develop additional business. ITS's upgrading of the level of its dialogue with customers, from IT managers all the way up to the CEO suite through investment analysis; RT´s innovative financial instrument to help customers enlarge their business; and Office Net's corporate coffee-service, are examples.

Taming Bureaucracies

Since they have to work through business-to-business transactions, ASVs must know how to deal with the intricacies of corporate customers. They are familiar with the organizational mindframe, jargon, standards and needs of bureaucracies. For example, besides being able to interact with cellular operators, RT had to confront the complexities of transacting with an international (and at the beginning rather skeptical) partner as Nokia; RT is now the eight largest Nokia dealer in the world, commanding the worldwide smallest transfer price per unit, even it is under a non-exclusivity contractual arrangement. Another example of conforming the nuances of bureaucracies is provided by Office Net: it physically breaks up orders to be able to deliver small packages to geographically-dispersed offices of the same corporate. In the three cases studied, CEOs had previous experience in dealing with large corporations, and were able to transfer such knowledge to their companies´cadres; ASVs seem to be built by entrepreneurs with a lot of corporate savvy.

Technology-enabled

All ASVs use information and telecommunications microchip-based technologies to do business in a an environment where the economics of information are responsible of value creation. All the reported companies abundantly –but selectively- use IT to interact within their networks. ITS intensively use IT both to operate inwards and outwards in support, consulting and education; RT uses IT to track on-line the status of each repair request; and Office Net service blueprint pivots around the order-taking system, whose speed and content richness means a true competitive advantage.

Human Resources Focus

Quinn (1992) has suggested that the new 'intelligent' corporations leverage intellect rather than facilities: they invest in superior selection, training, acculturation and motivation systems. Likewise, our three ASVs heavily invest in human capital since, by their very nature, information-based businesses need much internal training to enable employees in customer-contact techniques and in the application of standard operating procedures. In all three cases studied, the development of human resources was an area of explicit, operational concern for top management.

Regional/International Expansion

In large companies, technological improvements in communications and transportation allow manufacturers to expand business to much wider geographic ranges (Quinn, 1992, p.230). In the same fashion, the entrepreneurial ventures originated as a result of MNCs' outsourcing processes frequently experience exponential growth curves and, quite soon, their success momentum in their original markets pushes them to expand regionally and internationally. In the traditional market-induced globalization, the ventures' management teams spot similar outsourcing trends in other less-developed, starting-to-emerge economies and try to replicate earlier success in them: that was the case with RT.

The literature on international business has already reported that service suppliers may follow their customers in international expansion, as has been the case in the advertising, banking and insurance sectors (Li & Guisinguer, 1992). This behavior has also been reported in manufacturing, as in the case of the Japanese ancillary automobile industry moving to the U.S. following the entry of large Japanese automakers in that market (Banerji & Sambharya, 1996). What is remarkable in the present research is, however, that it is a *domestic*, host-country service supplier (rather than a home-country supplier) which is tempted to jump abroad by corporations already established in other countries. This behavior has been reported in earlier decades in Argentina, where local suppliers were enticed by large international customers to serve them on a regional basis through internationalization[4]. This is what we call domestic, partner-induced globalization, as the ITS case reports. When MNCs breed cheaper, capable outsourcees in one country of the globe, they seem to foster the internationalization of such partners to ripe the same benefits across countries; regional and hopefully global partnering with outsourcees becomes then MNCs' ultimate standardizing, cost-reduction strategy.

The ITS and RT cases suggest that ASVs are customer or market-induced to replicate their success in other emerging economies whose status mirrors that of the home country(Stage VII in Fig.1). In contrast, this attitude has been largely uncommon in the typical small Argentine business, for whom even simple exporting has usually been a quandary.

Finally, Office Net has started its regional expansion process, moving their service coverage to the greater Buenos Aires Area (inhabited by approximately 10 million people and the home of most manufacturing plants in the country). The interior of the country will follow suite in late 1998. International expansion is also a target for the management team but, wisely, the company wants to solidify current operations before being tempted to cross international borders.

IMPLICATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This paper has suggested that:

a. Globalization of an emerging, transitioning economy follows a specific path: macroeconomic change, foreign investment entry, radical transformation of companies acquired by foreign competitors, and dramatic change of established companies which need to mirror the productivity improvements of newcomers;

b. Like in developed economies, downsizing and outsourcing are most important restructuring strategies; both restrict career opportunities in large corporations but at the same time generate sizable opportunities to start up small service ventures which thrive as dynamic outsourcees of their larger partners;

c. The characteristics of such ventures seem to coalesce in the form of a specific archetype (Miller & Friesen, 1978) or configuration (Mintzberg, 1979), made up of 6 variables: a clear concept of the firm, bi-directional innovation, customer management, technology enablement, human resources focus, and regional/international expansion.

d. The cross-case analysis performed suggests these features are so stable as to suggest we may be witnessing the dawn of a new organizational type: the advanced service venture (ASV). These advanced ventures seem to be different, both in size (as compared to larger international outsourcees) and in managerial technology (as compared to traditional small outsourcees).

e. ASVs are important, first, because so much value-creation is being transferred to them by large, shrinking corporations and, as such, they represent a sizable breeder of wealth and employment; second, because they may act as replicating agents of globalization in other economies; as such, they may perform as powerful change agents in the economic development of other transitioning economies.

It may be interesting to extend the case research methodology I have used to other emerging economies, like Chile and Brazil. Chile entered the economic opening 10 years before Argentina, and Brazil, some 8 years after. Analyzing ASVs in these economies may provide more information on their development and also address the following question: what will the fate of ASVs be? In time, organizational isomorphism may push them to mimic their larger, more bureaucratic partners. Since the drive for efficiency may be strong enough to supersede the entrepreneurial spirit, aren't they prone to the risk of bureaucratizing themselves? Probably not, since business has changed its logic and MNCs are much less bureaucratic themselves; though the longitudinal scrutiny of ASVs in other economies in different stages of development may provide clues in this sense.

NOTES

1. Some Japanese keiretsu alliances do present cross-shareholding; see Banerji & Sambharya, 1996.
2. Yip (1992, p.1) has similarly defined an industry as global to the extent that there are intercountry connections.
3. The ten big emerging markets are: Argentina, Brazil, India, Mexico, Poland, South Africa, South Korea, the ASEAN region (Indonesia, Thailand, Malaysia, Singapore and Vietnam), and the Chinese Economic Area (China, Hong Kong, and Taiwan) (Garten, 1997).
4. Personal communication with Bernardo Kosacoff, August 1999.

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