

The world has gone through incredible change over the last few decades which is creating a globally interconnected world – a flat world. This pace of change is increasing with convergence of products, services, industries, technology and knowledge. The effects of globalisation and convergence will be dramatic and impact every aspect of business in developed and developing economies. Organisations in developed economies need to adapt to this new world and re-examine the basis of competitive advantage, redefine their businesses; become much more efficient through process and cost optimisation, seek best in class skills and knowledge from a globally dispersed talent pool, utilise technology to deliver superior value to their clients, provide products and services for this new converged world and tap into the globally interconnected financial markets to access cheaper capital. This chapter examines the drivers for globalisation and convergence, their impact on business and details how organisations can compete in this environment.

2.1 Introduction

The two transformational forces of the twenty-first century; globalisation and convergence are knocking down, long established structures, business models and beliefs.

The effects of globalisation have been wonderfully illustrated in the book: *The World Is Flat: A Brief History of the Twenty-First Century* by Thomas Friedman, which analyses globalisation, primarily in the early twenty-first century. Friedman defines ten “flatteners” that he sees as levelling the global playing field:

- Collapse of the Berlin Wall signifying the collapse of the Cold War and the integration of countries from the falling physical barriers;
- The web broadened the audience for the Internet from its roots as a communications medium used primarily by the academic community and geeks to something that made the Internet accessible by everyone;
- Workflow software enabled equipment to talk to other equipment without the need for human involvement;

- Outsourcing allowed companies to split service into those deemed core and non-core and allowed entities to subcontract activity and perform these in the most efficient, cost-effective way;
- Offshoring, which Friedman described as the internal relocation of a company's manufacturing or other processes to a foreign land to take advantage of cost advantages. The famous BRIC countries are at the foremost here;
- Open source software enabled communities to upload and collaborate on online projects;
- The use of technology streamlining the supply chain, such as sales, distribution, and shipping;
- In-sourcing, which is seen to be akin to what marketers call brand extension, where organisations supply goods or perform services into adjacent markets from their core markets, leveraging their existing assets, be it technology, channels to market or customer trust – he uses the example of UPS, in which the company's employees perform services – beyond shipping – for another company – e.g. UPS itself repairs Toshiba computers on behalf of Toshiba. The work is done at the UPS hub, by UPS employees;
- The holy grail of efficient markets theory is about access to all information in real time – this has now become closer to reality, thanks to Google and other search engines, which gives the participants in a market the ability to find all the information required in a timely and cost effective manner; and
- Finally the technology revolution, including Mobile, Voice over Internet, Broadband and other technologies which to some extent sit above the underlying Broadband networks and makes the utility of the services much greater; helping spur new innovative models, services and competition (e.g. Skype).

2.2 Convergent World

Friedman talks about convergence in a limited sense around horizontal collaboration and converging economies from a communist perspective to a market led perspective. However, the effects of convergence in its true form are much broader and much more impacting on the world – more so than the ten individual flatteners that were listed.

Convergence is happening in all its forms, which is changing the nature of market structures, demand, competition, competitors and the ways of doing business. Any organisation that is not cognisant of this, and does not transform their businesses will be adversely affected.

Globalisation, increasing international trade and the lowering of barriers to entry into markets will continue over time. The impact from emerging countries in terms of competition, their effect on demand for raw materials and energy will only continue to increase.

Organisations will need to not only transform their internal focus – improving efficiency, accessing world class talent, better partnerships and focused on what is

core to their business, but they must also, examine opportunities to serve the emerging markets.

Everyone talks about convergence in one form or another, some talk about converging technologies, others converging markets and so forth. Convergence is changing the ICT industry significantly today. It is not a theoretical argument, but an everyday reality for companies within the ICT value chain.

ICT convergence is a state in which networks and intellect are globally interconnected, integrating all forms of electronic communications into a single universal transmission system which interconnect processing resources, and deliver all forms of content that is delivered from one to the other, on whatever device and wherever that individual desires such content.

I tend to view convergence more broadly and as my colleague, Ross Caldwell elegantly put it, it is the interaction, overlap and absorption of different industries converging together in a more competitive and deregulated market – a world where skill sets are available everywhere, where everywhere is connected, where knowledge is ubiquitous, where everything is now and where everywhere is here, and where resources are globally distributed.

Viewing convergence in these broad terms paints a very different picture of what the world will look like in the twenty-first century and what the implications are for organisations.

The relatively simple diagram (Fig. 2.1) illustrates the interconnected nature of convergence and globalisation:

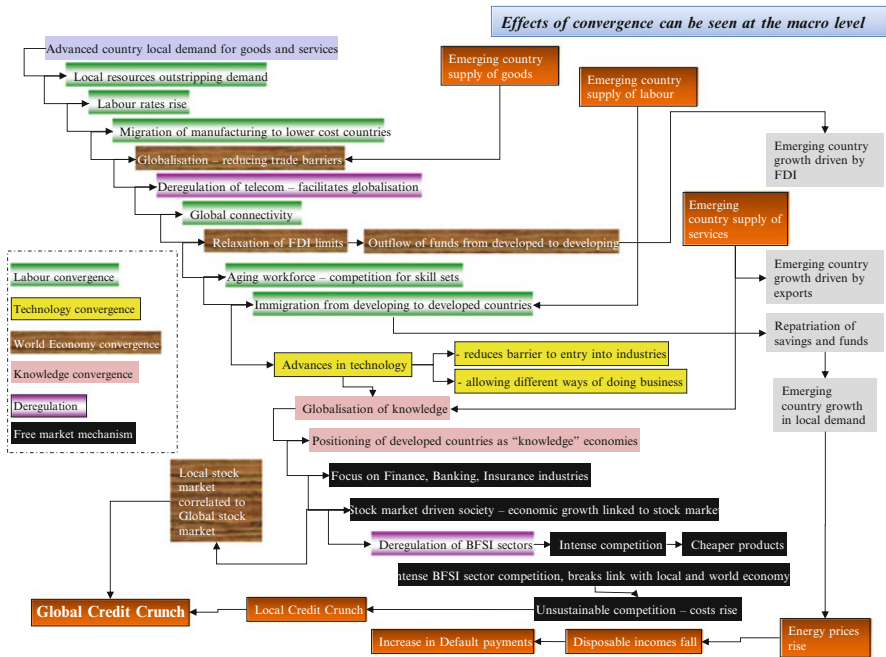


Fig. 2.1 An interconnected world

A World where globalisation and convergence are interconnected

Given this scenario, what are the options for world economies to compete on the global stage? Well two, either raise barriers to entry into your local markets or adapt businesses to compete in this spaghetti of economics, politics, regulation and internationalisation.

2.3 Raising Barriers to Globalisation and Convergence

A country could attempt to counter the forces of globalisation and convergence by raising barriers. Indeed countries have or are attempting to do just this – at the time of writing this book, the UK is attempting to limit immigration, the USA is considering raising trade barriers with China, the G20 is attempting to impose more regulatory controls on the financial industry. However, these are seen as relatively short term measures, an attempt to buy time. All participants in this game know full well, that in an interconnected world, one country raising barriers is likely to lead others to retaliate, and therefore over time the act of raising barriers could over time lead to a dis-benefit. That aside, the options for countries to raise barriers include:

- Raise trade barriers – where countries cannot compete with others, it may raise trade barriers unilaterally or bilaterally – sometimes these may be rational intentions sought to counter the effects from currency manipulation by a country, but mostly is a reaction to competition from countries that have a lower cost base.
- Regulate telecommunications strongly – globalisation, outsourcing and offshoring have only been possible because of the ubiquitous and cheap availability of telecommunications infrastructure. During the early 1980s the price of a call from the UK to India was more than £1.50 per minute – probably equivalent to £5.00 per minute in today's value; today the liberalisation of telecommunications markets globally means it costs only £0.01 per minute.
- Limit FDI – many industries in developing economies flourished as a result of foreign direct investment, but today many of these developing countries have started investing in developed economies – usually to secure a channel to market for their products and services. Although the largest investor in the UK remained the USA, India was the second-largest investor in 2008–2009, ahead of Italy, France, Canada and the Gulf countries.¹
- Limit immigration – globalisation and outsourcing rely on the free flow of talent across national boundaries. Making these national boundaries stronger can help limit the effects of globalisation and outsourcing at a national level – it also panders to public opinion around immigration.

¹ UK Treasury.

- Limit repatriation of funds – FDI and immigration are linked to the ability to repatriate funds either to company head quarters or families, for business and consumers respectively. Limiting the ability to repatriate funds makes immigration and FDI less attractive.
- Limit globalisation of knowledge – the fuel that has powered globalisation and higher end knowledge based outsourcing has been the distribution and collaboration of knowledge. Cutting this fuel can reduce the pace of globalisation and outsourcing. This could mean limiting university collaboration, Joint Ventures and reduced funding for joint research projects.
- Regulate financial markets strongly – the free flowing nature of financial markets has led to the cross border flows of finance, liberating companies from their local domestic markets to the international stage. Regulation of financial markets can put the brakes on the pace to globalisation.
- Seek alternative energy sources or reduce demand for energy – one of the effects the growing economies of the BRIC countries have had, is on the demand for energy and raw materials. This has the inevitable impact on the price for raw materials and energy prices. These being the primary inputs to production, have fed through to final goods and services prices. It has also driven globalisation as developing countries hungry to access steel, cement, coal and so forth have ventured into overseas markets in an attempt to secure these – all eyes have firmly been fixed on African countries for now.
- Enforce bank lending to affordability criteria – another periphery affect of globalisation and the free flow of finance has been the relaxation of bank lending to compete in an increasingly competitive market – apart from the effects leveraged debt has on individuals when times get tough, it has meant individuals have sought to invest in higher growth markets, fuelling globalisation.

2.4 Adapting Businesses to Compete on a Global Level

Taking the above definition of convergence, and given the first option of raising barriers has to a large extent been relegated to the cold war era, means a business within a converged world, to continue to compete needs to examine and concentrate on:

- Redefining what business they are in – what is unique, core and valuable – concentrating limited resources to these and outsourcing the rest;
- Optimising and reducing costs through automation and outsourcing;
- Accessing skills and knowledge across the globe, by embracing international partnerships, through a distributed workforce, and by accessing the necessary tools and capability to manage staff and partners remotely;
- Embracing technology developments and working with the stakeholders to create integrated networks, channels and knowledge sharing;
- Developing products and services for a converged customer and for delivery in converged distribution systems – using international partners to help the expansion of the business to the international stage; and
- Seek lowest cost finance.

These pillars of business transformation are illustrated in Fig. 2.2.

Achieving competitive advantage in a globalised converged world requires adaption of the business to take advantage of the following macro factors (Fig. 2.2):

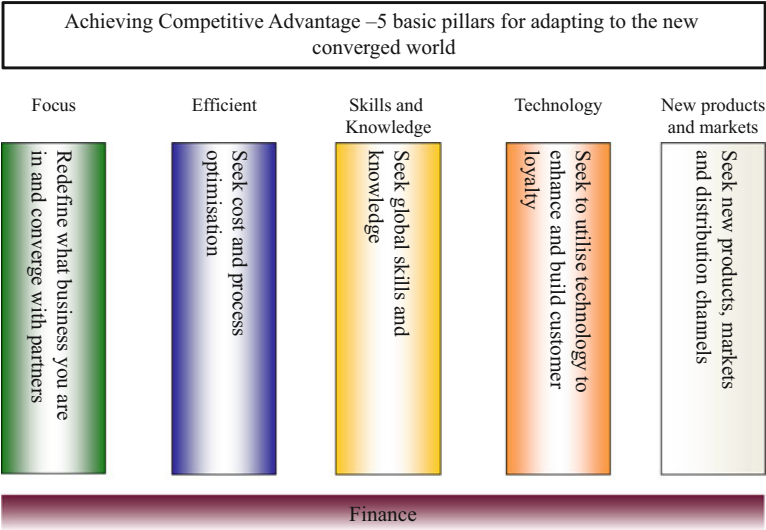


Fig. 2.2 Pillars of competitive advantage

Achieving competitive advantage in a converged market therefore requires the business to (Table 2.1):

Table 2.1 Surviving in a competitive global world

1. Redefine what business you are in and partner	1.1 Determining the strategy to compete – what’s niche, what differentiates you, how do you compete with emerging countries?
	1.2 Using partners to implement organisational functions/processes, which they can do better and cheaper than a company can do internally
2. Seek cost and process optimisation	2.1 Seeking raw materials globally at lowest possible cost
	2.2 Improving allocative efficiency–resource allocation to maximise returns
	2.3 Improving productive efficiency (minimal per unit cost)
	2.4 Improving dynamic efficiency–investment in innovation
	2.5 Automating processes wherever possible to eliminate errors and improve efficiency
	2.6 Seeking to reduce consumption of inputs

(continued)

Table 2.1 (continued)

3. Seek global skills and knowledge	3.1 Recruiting talent globally and having the workforce stationed globally working remotely, working in different time zones – seeking to become a 24 h company
4. Seek to utilise technology to enhance and build customer loyalty	4.1 Implementing best available technology, systems and management to interconnect employees, suppliers, partners, customers and knowledge 4.2 Offering superior customer service, constantly communicating and managing the relationship
5. Seek new products, markets and distribution channels	5.1 Entering new product/service and geographic markets 5.2 Developing new products for the convergent age and protection of such innovation
6. Seek lowest cost finance	6.1 Sourcing lowest cost finance, whether this is from international markets, or new social clusters (e.g. expatriate funds)

Looking at each of the above in turn:

1.1 Determining strategy to compete – what's niche, what differentiates you, how do you compete with emerging countries?

With increasing competition from domestic competitors, competition from new players enabled by reduced barriers and international competition, basic products and services will tend to get commoditised. Competing against international competitors from emerging markets for commoditised products and services will become increasingly difficult.

A company has to adopt three key strategic positions:

- Cost leadership, enabled through lowest production costs, efficiency and optimised processes;
- Differentiation, enabled through superiority in either product or service delivery, customer service or use of technology; and
- Focus, enabled through highly customised products and service to niche markets.

1.2 Using partners to implement organisational functions/processes, which they can do better and cheaper than organisations can do internally

In a world where organisations need to become efficient and spend their valuable resources in achieving excellence in allocative and dynamic efficiency, it is important that any function/process which can be done better and cheaper externally rather than internally, be considered for outsourcing. However contracting out services in the “old fashion” will not enable the firm to seamlessly change its business over time. To create a firm which transforms and transitions to changing market conditions over time, the firm must partner with outsourcing service providers on a relationship where both parties' aims and goals are aligned. However, some functions/process must be kept internal to the business:

- Because they are core and essential, such that it would be too risky to outsource; and
- In order to achieve dynamic efficiency – innovation will in most cases not be invested in by the outsource service provider as it would be deemed as being too risky.

2.1 Seeking raw materials globally at lowest possible cost

Whatever strategic position is adopted, it is imperative that production costs are minimised through the procurement of goods and intermediate services at the lowest possible costs – usually from international markets. Where intermediate services are being procured, it is also important that lowest cost does not also translate to poor service.

2.2 Improving allocative efficiency – resource allocation to achieve maximum returns

An area where a firm must pay significant attention, especially in the context of convergence, is in the appropriate allocation of resources to achieve the maximum return on investment from a range of investment opportunities. This usually calls for serious examination of the state of competition and the firm's capability to achieve ongoing margins given incremental production, distribution and customer service costs. Appropriate resource allocation may need to change continuously over time, changing in line with developments in the markets and customer behaviour. However, to do so effectively, requires instantaneous access to relevant data – at a detailed granular level. Without this information, it would be impossible to make appropriate decisions. This requires investment in cost models, systems and automation procedures.

2.3 Improving productive efficiency – lowest unit cost

It is no understatement to say it is important that achieving the lowest possible unit cost per product or service is desirable, however this may not always be achievable without significant economies of scale – i.e. only the largest can be the cheapest. What is however important for all firms, large and small, is achieving efficiency in all their operations, from operations, distribution, marketing, HR management and within the area of SG&A. This usually calls for an examination of all the business processes, ensuring maximum process optimisation, ensuring all the processes are aligned and that there are no unnecessary delays, hand-offs or blockages. In the some cases business process engineering, six-sigma and so forth may be required.

2.4 Improving dynamic efficiency – investment in innovation

An area which only a handful of firms spend much attention to, is in improving dynamic efficiency, which effectively means innovation – seeking new methods of doing business, new products/services which effectively change the nature of competition. However convergence provides a perfect opportunity to do just that. Innovation can break the mould and allow firms to thrive in what may have been competitive or difficult markets to enter – e.g. Skype, ebay, Napster – they change the market and the way in which firms within the market must compete. Innovation does not always derive from technology innovation, although most do. Innovation in customer service, in bundling of products and services and procurement methods can provide a key differentiator.

2.5 Automating processes wherever possible to eliminate errors and improve efficiency

Most inefficiencies and errors that occur, especially in data intensive and process driven sectors are as a result of human error. In a world where customers are more

demanding and switching costs from one provider to another are minimal, it is vital that firms reduce all forms of errors and inefficiencies from their processes – this usually calls for the automation of such processes. Automation also drives efficiencies by utilising technology and systems. Automation also enables:

- The production and delivery of sub-process to be taken offshore and managed locally;
- Enables processes to be brought back in house or migrated to an alternative service provider easily and effectively.

2.6 Seeking to reduce consumption of inputs

It is important to reduce consumption of inputs wherever possible: raw materials, HR, energy and so on. It is given that energy prices will remain relatively high given the steady demand from emerging countries. Governments are keen to utilise “green” sources and incentives are being offered which companies could avail themselves of. In addition many consumers are becoming environmentally conscious and will in the future reward those that they perceive to be more aligned to their beliefs and views, by giving their loyalty to such businesses.

3.1 Recruiting talent globally and having the workforce stationed globally working remotely, working in different time zones – becoming a 24 hr company effectively

When competing in an ever more competitive environment, and especially when firms seek to differentiate themselves and focus on niche markets, it is important to recruit talent globally. No longer should companies be restricted in what they can achieve, just because of the limitations in accessing talent locally. Consumers are becoming more demanding, seeking immediate access to services and products whenever they demand – a 24 hr society. This also requires firms to become 24 hr businesses. Recruiting talent globally and working remotely enables a firm to provide services and products 24 hr, without necessarily increasing costs significantly. However the firm must be able to manage the disparate workforce effectively.

4.1 Implementing best available technology, systems and management to inter-connect employees, suppliers and partners, to offer superior customer service, constantly communicating and managing the relationship

Where switching costs and loyalty are reducing over time, there appears to be two choices that a firm has, the first is to lower prices to attract and retain customers, and the other is to offer superior customer service, which customers are willing to pay a small premium for. Competing on price alone, will not serve the firm or the industry – a declining pricing spiral only benefits the end user. It is far more sensible to compete on the basis of customer service – this effectively raises the barriers to customers switching, and builds longer term loyalty. Offering superior customer service, means making the customer feel valued, which usually calls for:

- Individualisation of some aspects of service;
- Constant communication; and
- Managing and being honest with customers if things go wrong.

Communication needs to move with the times and should also include web 2.0 based technologies. Technology must be used to differentiate your firm from the rest – but keeping up with the latest technology comes at a cost.

4.2 Distributing knowledge throughout the organisation and its partners

Excellence is achieved by constantly sharing knowledge and communicating with stakeholders – letting them know what is happening, where and why. Sharing knowledge enables stakeholders to make better decisions and share responsibility for the delivery of superior services and products. Knowledge encompasses both explicit and tacit knowledge. It is important that firms capture through thorough documentation management all forms of explicit knowledge, collect this centrally and share such knowledge between its stakeholders. Tacit knowledge (know how), in many cases distinguishes one firm from another, and it is important that the firm facilitates, captures and disseminates such knowledge. Training must form an integral part of organisational learning – not only in the form of formal external training, but also facilitated workshops.

5.1 Entering new product/service and geographic markets

Globalisation and the emergence of developing countries on the world stage not only creates competition, but also creates opportunities for firms in developed countries. However, a firm must adjust its offerings for the needs of the local markets, which may include significant cost reduction. Understanding the nature of such local markets and the nuances that may not be visible can only be achieved through partnerships with firms based locally. There is nothing to stop an offshore firm which provides outsourcing services for some of your functions/processes, to also become a distribution partner for your products or services.

5.2 Developing new products for the convergent age and protect such innovation

The nature of demand and the mechanisms for delivery is changing – firms must develop or adapt products and services to cater for these changes in demand and delivery modes. The changing nature of demand includes; more interactivity, more demand for relevant content and more choice. In addition there are now new delivery modes for content, through TV, IPTV, Web, Mobile, Games, etc. and new delivery modes for products, such as the new retail channels created by the likes of Amazon, Ebay, Tesco (who is now seeking to sell legal services from its stores).

6.1 Seeking lowest cost finance

Although it is quite obvious that a company must seek the lowest cost finance, it is most often overlooked – many firms rely on bank loans or the local equity markets. As financial systems across the world are becoming integrated, the standards and governance frameworks of the most advanced financial markets are now being applied within developing countries. It may therefore be possible to seek finance from overseas markets, without the higher risks that would be associated with such a move in the past.

2.5 A Case in Point: The Rise of India

We all know about how India is becoming a world power, growing at an amazing rate, making headlines: from the smallest car in the world, sending satellites into orbit, becoming the provider to the world's poorest when it comes to generic medicine, buying the UK's beloved Tetley's tea and so on. ...

However, what I think is more remarkable is how less than 20 years ago, India was on the verge of bankruptcy. In an age where the bureaucrats in Delhi controlled the economy and to a large extent, enterprise, through their socialist lens, the country was seen as a basket case.

During the 1990s the country opened up its markets not only to the private sector, but to international competition. In a matter of two decades, India grew exports of IT & Business Process Outsourcing services, exponentially to approximately \$70bn today – contrast that with UK exports of ALL services at around \$250bn. The pharmaceutical sector is growing exponentially, including bio-tech, which is growing by nearly 40% every year.

The telecommunications sector is growing faster than any in other country. India is by some measures the second largest telecoms market with 10–20 million mobile subscribers added every month.

The automobile industry is one of the fastest growing sectors globally, with predictions that India will be among the top five vehicle producers in the next 5 years.

India is a country with a middle class larger than that of USA, or Europe, a country where more than 125 million people speak English, which churns out more than 2 m English speaking graduates and over 75,000 IT graduates every year (not to mention the mathematicians, the engineers and the doctors).

It is a country where education is not only a pillar of the economy, but society as well – where the average salary is a lot less than the UK, where over half the population still live on two dollars a day.

There are a lot of aspiring, hungry, go-getting people, all looking to making money in the global economy – if the private sector can churn out \$70bn in exports in two decades, think how far they can go in the next decade – India is the equivalent to what China was, in the manufacturing world, for the service sector.

So what you may ask?

First, they will come knocking on your current and future customer's doors, and they will be a lot cheaper than you are today. Apart from creating huge barriers or huge walls, like the old days, there is not much that you can do to stop them.

China did this to the manufacturing sector. China didn't necessarily come knocking on your customers doors, but your customers went knocking on China's doors. This is also likely when it comes to services – your customers will go knocking on India's door.

You will hear many in the developed world say we are different today – the UK economy for instance is a knowledge based economy, it thrives on education and so on – but India is building itself to be the world's back office – to be a service industry, to compete not in manufacturing, but on knowledge. So like it or not, it will affect most service businesses in the developed world.

So what are the options for organisations in this new world order?

First the Indian market should be seen as an opportunity to market your products and services. Unlike developed economies where growth is stagnant, the economy is growing and is expected to do so for some considerable time. It is still a very underdeveloped country. There is a massive need for improved

infrastructure – roads, rail, airports, the health system, the education system, security, defence, energy production, green technology, more intensive farming, better logistics, better distribution, and so on. India may have the large scale graduates, but it lacks the innovative products, the R&D, the experience, the technology, the high end engineering skills which developed countries have at their disposal.

The second plank of this strategy: instead of fighting this invasion, why not collaborate – it is far easier to get onboard a running train, than trying to stop it. If you go to India, you will see this is quite normal – I’m always surprised why India doesn’t have more Olympic runners, given how most of the population are wonderful sprinters, racing to board a running train. ... If you know the markets are getting more competitive, more demanding, more challenging – why not tap into the resources that are available. There’s been a lot of resistance to offshoring by the unions, and many people will increasingly view it with suspicion, as unemployment starts to rise in developed countries – but is it not better for a firm to continue trading, retraining staff to take new roles within the firm or beyond, than a firm going under because it cannot compete on the world stage?

Globalisation and convergence require businesses to move from an integrated monolith to an allied enterprise as illustrated in Fig. 2.3.

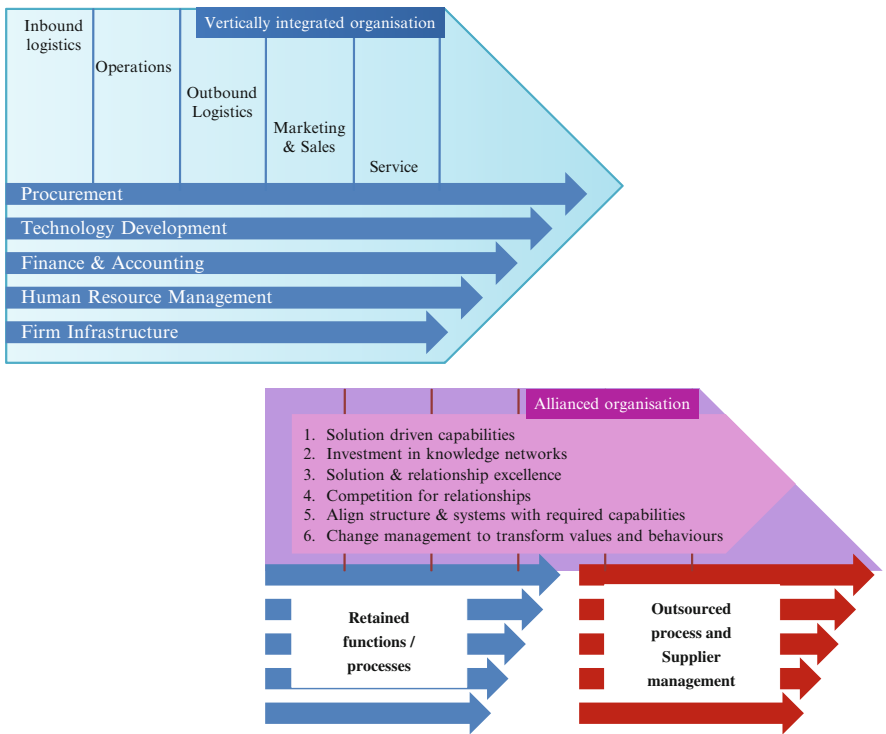


Fig. 2.3 From a vertically integrated organisation to an allied organisation

2.6 Take Aways

- Globalisation is impacting organisations today and will continue to do so into the future.
- Convergence in all its forms is gathering pace and changing the markets, environments and the basis of competitive advantage – organisations must adapt or be left behind and meet the same fate as the dinosaurs.
- Organisations need to focus on core competences – things that will help them differentiate in the global competitive canvas.
- Competition from cheaper players from the developing world means organisations must seek cost and process optimisation to compete fairly.
- Knowledge and skills are globally distributed – organisations must leverage this, rather than fight the inevitable trend.
- Technology can help reduce costs, improve quality or even re-define markets – organisations must utilise technology, but do so within their cost constraints.
- Globalisation and convergence create opportunities for serving new markets and offering new products – organisations must capitalise on this.



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