Sourcing Human Talent

15.220 Global Strategy
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Global Talent Arbitrage

- "In engineering, China's graduates will number over 600,000, India's 350,000, America's only about 70,000"

  Fortune, "Can Americans Compete," 7/25/2005

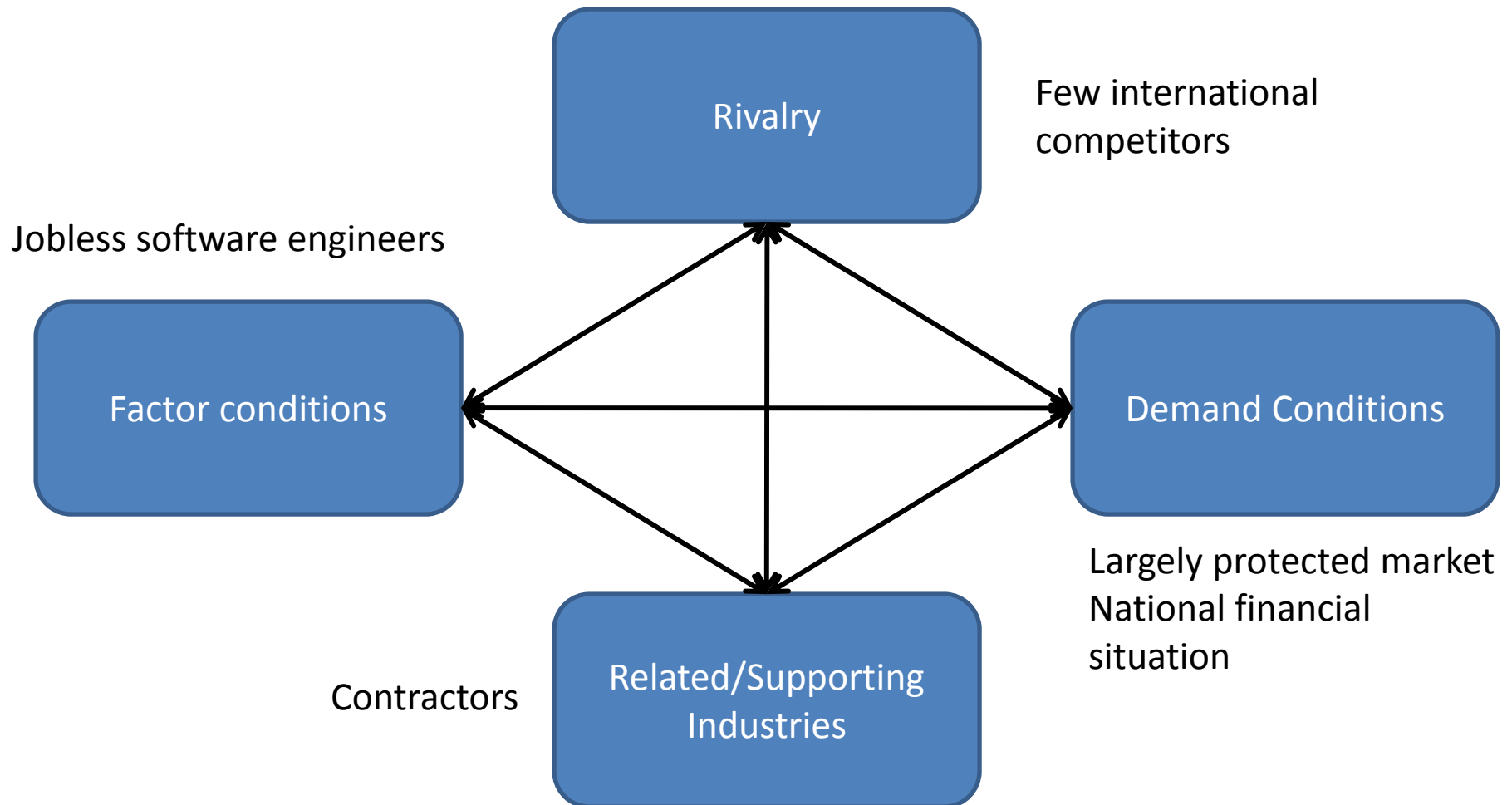|	US (SFO)	Japan	Taiwan	China (SH)
Assembly worker	$2,761	$2,894	$786	$272
Engineer	$6,439	$5,073	$1,451	$544
Manager	$7,677	$6,458	$2,418	$906
Gerald Yin, VP Applied Materials, presentation at Hua Yuan Panel, April 12, 2003				

- Talent arbitrage is not as easy as it seems!

Why internationalize?

InterSoft Chronology

- **1983 –Founding**

- 1984 –Intersoft successfully completes its first installation of a Unix-based integrated Enterprise system in Argentina

- 1986 –Becomes nationally and internationally recognized for completing the first installation of Unisys machines running on UNIX in Argentina

- **1987 –IdeaFix (InsterSoft Development Environment Applications for Unix) is born. It is a highly innovative product that integrated, for the first time, the functionality of a development tool (DT) together with those of a Referential Data Base (DBR) and that quickly achieved international recognition. This turned InterSoft into the first Argentinean software company to export its products.**

- 1988 –Aurus is born. It is the first ERP for the Argentinean market, integrating managerial and financial accounting in a platform that continuously adapted to local regulations with a low maintenance and support fees.

- 1989 –Denarios is born. It is a human resource management system with high levels of flexibility and absolute adaptability to any legal system. In parallel, InterSoft launches Uniforum, an organization aimed at promoting the use of UNIX based systems that integrated the most important national and international players in the Argentinean market.

- 1990 –Intersoft begins to work with C++ moving into object-based programming

- 1992 –A Transactional Data Base Motor is added to IdeaFix. To respond to local market needs, all the IdeaFix technology and applications are adapted to also run on Windows.

- **1995 –**Three important achievements. **ONUDI (UN organization for industrial development) grants InterSoft two awards, one for technological innovation and the second for the establishment of a software development lab in Buenos Aires.** At the same time, the Invertir Foundation recognized InterSoft's pioneering technological development. The Argentina-based lab begins programming on Java.

InterSoft's diamond until 1991

Few international competitors

Jobless software engineers

Rivalry

Factor conditions

Demand Conditions

Largely protected market
National financial situation

Contractors

Related/Supporting Industries

Pressures to internationalize

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InterSoft's diamond after 1991
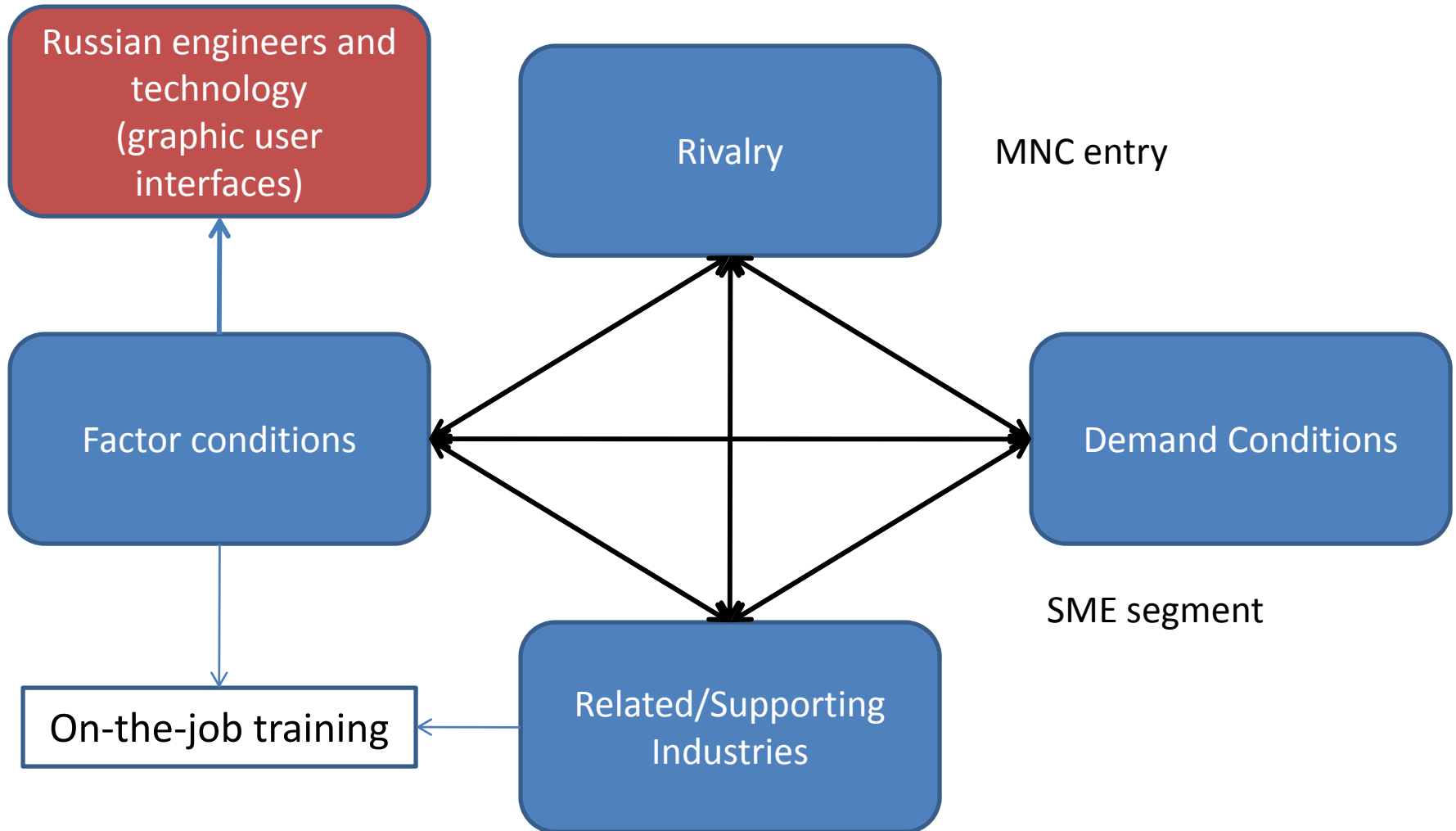
Why go to Russia?

Software Industry in Russia (2003)

- 70,000 programmers
- Wages (2002)
  - Moscow $500-1,600
  - St. Petersburg $400-1,300
  - Regions $300-850
- Good technical and problem solving skills
- Poor project management skills
- "Programmers' creativity causing problems"
- 25% of revenue from offshore work
- Sun Microsystems (1989), Motorola (1993), Intel (1993)
- Sources: The Maturation of the Russian Offshore Software Industry, Hawk and McHenry (2005);
- The Russian Software Industry, Andrey A. Terekhov (2001)

Orgland's strategic role
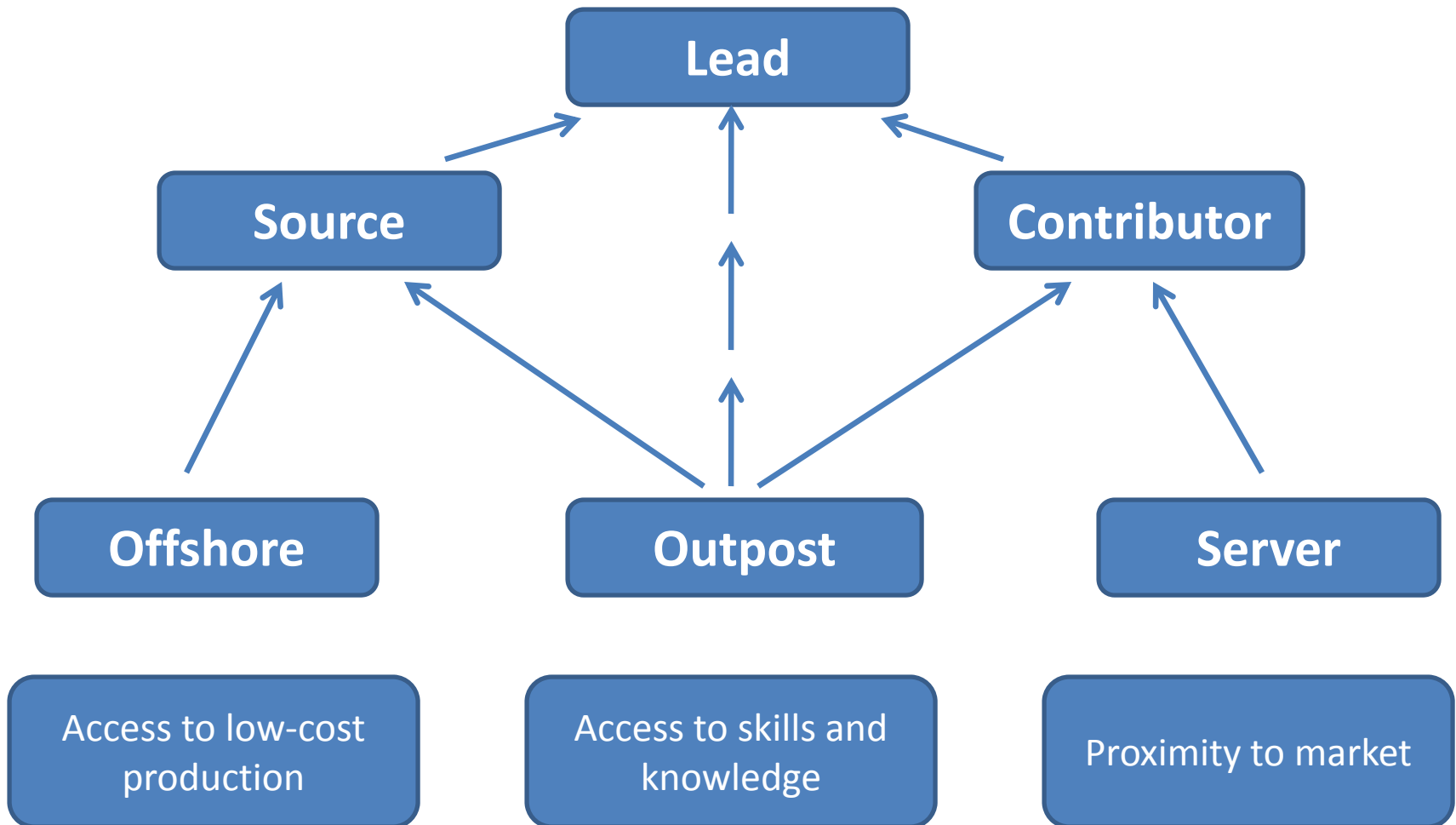
What went wrong?

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Communications technology

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Team building

Trial Project - Russians spent defined periods of time in Argentina – typically 3 weeks. During their time, they had **access to a translator, weekend entertainment and social/lunch gatherings**. This helped create a **personal connection** between the developers of InterSoft and Orgland.

·	Change in Organization - Sergio Gortchacov, spoke both Russian and Spanish, and yet was moved to Russia and became president. This organizational change left an **enormous hole in the competencies** of InterSoft's Buenos Aires office – especially when Russians came to visit.

·	IDEAFIX - Ishakov was sent to Buenos Aires on his first overseas trip. His original duration of **2 weeks quickly became 2 months**. During this time, Ishakov was **extremely isolated** from the other InterSoft developers because of language, little effort to engage Ishakov, and no real support structure.

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Student responses removed due to copyright restrictions.

Offshore vs Source:

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Offshore vs Contributor

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Other experience:

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China IC Design Industry

- Taiwanese and Chinese Returnee entrepreneurs
  - You would expect Returnees do better
  - I found that Taiwanese did better
  - Taiwanese:
    - Outsourcing strategy
    - Management background
  - Returnees:
    - Sourcing strategy
    - Technology backgrounds
    - Need "support" agents

A word of warning…

Country	Percentage of Engineers Employable
US	80.7%
China	10%
India	25%

McKinsey Global Institute (2005) cited in Gereffi, Wadhwa and Rissing (2006).
See also http://www.soc.duke.edu/resources/public_sociology/duke_outsourcing.pdf

What happens next?

InterSoft Chronology

- 1996 –InterSys is founded in the US and is spun off to later become Fuego Technologies, whose star product is FuegoBPM.

- 2000 –A new, Java-based graphic interface is created for InterSoft

- 2001 –InterSoft develops a new web interfase (WIF) that allows all IdeaFix developments to run on the Web.

- 2005 –Today, on top of commercializing products developed in-house, such as IdeaFix, Aurus ERP, and Denarius; InterSoft also provides Open Source, Business and Process Intelligence, and Outsourcing consulting services.

Written Assignment # 2: Due Monday March 10, 2008

- Using one or more of the frameworks presented in class, discuss how your firm (or a firm of your choice) is organized internationally in order to exploit or enhance its core (often home-based) competencies (RATs description in CEMEX article may be useful here),

    - Focus on a single business and a single country or region other than the home base.
    - Describe the whether the country in question is a global/regional platform, or a local market or source for the firm. (Ferdows' classification may be useful here)
    - Briefly assess the contribution to the firm's global (regional) competitiveness of the conditions (Porter-'s resource diamond or my extended virtual diamond) of the country/region in question. (this may repeat part of your analysis in Paper # 1)
    - Describe the nature and degree of global integration and local responsiveness/embeddedness of (the focal unit of) your firm, using the Bartlett-Ghoshal global integration-localization chart (or another framework that fits the situation better).

- To put in context, you might "map" a series of businesses in first I-R grid, but only "explode" one. Do the same with activities and regions. If possible, provide some historical context and compare and contrast the integration and localization of this unit with other units of the firm and/or competitors.

- 4 pages double-spaced plus figures. Pls refer to figures in text.

    For a quick review of the relevant frameworks, see my "Frameworks" article assigned for day 3 and the "cheat sheet" that will have been distributed.

Questions for Zara

- How well does Zara perform compared to its competitors?
- What are the sources of Zara's competitive advantage?
- Which of these result from the "Spanish diamond"?
- How well do the various elements of Zara's business model "travel globally"?
- Why might Zara "fail"?
- What are the best ways to grow the Zara chain?
- What are your top 3 recommendations to Inditex CEO Jose Maria Castellano re the internationalization of Zara?