Internationalization strategies of emerging market-based multinationals: integration of Indian ICT-ITES companies on the Dutch service outsourcing market

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ABSTRACT
This paper examines the entry of Indian information and communication technology–information technology-enabled services (ICT-ITES) companies on the Dutch service outsourcing market. Using this case study, the paper integrates two academic debates: the rise of emerging country-based multinationals and the international dynamics in the ICT-ITES sector. Indian ICT-ITES firms can no longer only rely on cheap labour in their home country and need to build global delivery capacity in order effectively to compete with Western ICT-ITES multinationals. By examining their entry strategy in the Dutch service outsourcing market, this paper highlights the difficulties of latecomer multinationals in entering the more profitable domains of the ICT-ITES market.

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1. Introduction

The information and communication technology–information technology-enabled services (ICT-ITES) sector is commonly associated with the relocation of service work from Western countries to countries in the Global South through offshore outsourcing relations (Dossani & Kenney, 2009; Raychaudhur & De, 2012; UNCTAD, 2005, 2012). Particularly India and the Philippines have benefitted from the relocation of service activities towards their shores (Lambregts et al., 2015). In India, foreign investments and increasing capacities of local firms led to the emergence of an ICT-ITES sector that gained an international reputation for the delivery of a wide range of business services (Dossani & Kenney, 2009; Raychaudhur & De, 2012). Since the early 2000s, Indian ICT-ITES companies have increasingly been pursuing an internationalization strategy in order to be closer to their main markets (US and Europe) and customers by establishing delivery centres and regional offices (Hermelin et al., 2011; Narayanan & Bhat, 2011; NASSCOM, 2010; Pradhan, 2007). Their international expansion exemplifies the growing importance that emerging country-based multinationals (EMNCs) play in today’s global system (Buckley & Hashai, 2014). In recent years there has been a marked increase in the magnitude of
outward investment flows of EMNCs and a qualitative transformation in their pattern (Athreye & Kapur, 2009). As such, EMNCs are reshaping the international division of labour and creating new dynamics in the global economic landscape (Dohse et al., 2012). Whether international expansion of EMNCs follows extant Western patterns and theories on international firm expansion (e.g. Dunning, 1988, 1998) or, considering their latecomer disadvantages, requires a rethinking of core concepts in firm internationalization theory (Buckley & Hashai, 2014; Luo & Tung, 2007; Sinkovics et al., 2014; Ström & Wahlqvist, 2010) is a key debate in economic geography and international business literature that this paper aims to contribute to. It will do so by providing a better understanding of the rationale and strategies behind outgoing foreign direct investments (FDI) from EMNCs in a sector that is associated with the relocation of work by Western multinationals to lower cost countries rather than EMNCs entering Western markets. As argued by Bunyaratavej et al. (2011, p. 92), research on Southern ICT-ITES firms investing in Western countries is almost non-existent to date, and research on internationalization of firms from less developed countries has only started to be published recently. In addition, as highlighted by Thite et al. (2016), there is still relatively little understanding of the internationalization process and strategies of Indian firms. Third, research on EMNCs has a bias towards manufacturing multinational companies from emerging economies (Boehe, 2015).

By focusing on the international expansion of Indian ICT-ITES firms, this paper integrates these themes: the growing presence abroad of Indian multinational companies and the evolving international dynamics in the ICT-ITES sector. The literature on the ICT-ITES sector is largely focused on the relocation of service work to the global South through offshore outsourcing arrangements (Dossani & Kenney, 2009; Fernandez-Stark et al., 2011). Indian ICT-ITES firms seeking increasing local presence in the main economic centres of the world to serve customers indicates that they are no longer only recipients of service offshoring to India, but that they are now shaping the international contours of the ICT-ITES sector (Hattari & Rajan, 2010; Hermelin et al., 2011).

The empirical case for this paper is the entry strategy of Indian ICT-ITES companies on the Dutch market. It examines the motivations for Indian companies to locate in the Netherlands, the strategies they pursue when entering the market and their ability to engage in different domains of the ICT-ITES sector. A key issue is whether offices of Indian firms in the Netherlands merely operate as front offices for acquiring orders that will be processed in India, or that they build up increasing local capacity through the establishment of service delivery centres and increasing presence of Indian workers on location at Dutch clients. The latter is of importance for entering the more profitable domains of the ICT-ITES sector and for a deeper integration in the networks of leading multinational firms. This paper is based on 20 interviews with representatives of Indian ICT-ITES companies based in the Netherlands and 15 interviews with other local key informants such as representatives of the main knowledge network for service outsourcing in the Netherlands, business organizations and other support organizations. Section 2 discusses the literature on the growing presence abroad of EMNCs and their market-entry strategies, with a particular focus on the ICT-ITES sector. Section 3 explains the research methodology used in this study. Section 4 examines the motivations for the international expansion of Indian ICT-ITES firms. Section 5 provides an overview of the Indian ICT-ITES sector in the Netherlands, including the types of investment and the service domains in which they are involved. Section 6 examines the market-entry strategies of Indian firms in the
Dutch ICT-ITES market, the local capacity building of Indian firms and their offshore and nearshore strategy. Conclusions are drawn in Section 7.

2. Theoretical framework

2.1. Emerging market-based multinational enterprises

The literature on internationalization strategies of firms is largely based on the experience of firms from developed countries (Buckley & Hashai, 2014; Govindarajan & Ramamurti, 2011; Ström & Wahlqvist, 2010). Dunning’s OLI (ownership, location and internalization) paradigm has for many researchers served as reference on why firms engage in cross-border value-added activities (Dunning, 1988, 1998). Enterprises will engage in foreign production whenever they perceive it is in their best interest to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments (strategic assets) or other intermediate goods in another country (Dunning, 1988). Dunning’s eclectic paradigm conveniently explains the motivations behind international investments of firms from developed countries as market, efficiency (or cost reduction) or resource (or strategic asset) seeking (Ramasamy et al., 2012). The key issue is whether the outward expansion of EMNCs reflects mostly the exploitation of country-specific advantages (the home country ‘L’ factor) or firm-specific assets (the ‘O’ factor) (Sinkovics et al., 2014, p. 676).

Various authors raise the question whether the rise of EMNCs should stimulate rethinking of key concepts on international firm strategies and whether the OLI paradigm can sufficiently explain their motives for international expansion (see Hennart, 2012; Luo & Tung, 2007; Mathews, 2006; Narula, 2012). To what extent differences in characteristics, motives and ownership advantages between developed and developing country firms, and the different era in which their internationalization takes place, result in different paths of international expansion remains yet unknown (Fortanier & van Tulder, 2009). Their often perceived limitations (e.g. technological latecomers, underdeveloped home-market) would put them in a disadvantageous position compared to Western multinationals. As raised by Buckley and Hashai (2014), how can one explain the rise of EMNCs, and especially their ability to engage in FDI in advanced countries, given that many emerging country-based firms lack firm-specific competitive advantages? As latecomers, EMNCs would lack critical international experience, managerial competence to organize global activities, and professional expertise in functional areas such as international accounting, finance, marketing and law (Wang et al., 2014). This presumption in the literature on EMNCs requires more empirical work at the firm and sectoral level to understand how internationalization helps them to overcome latecomer disadvantages and what assets they look for abroad.

The internationalization activity of firms from developing countries may reflect attempts to acquire strategic assets, such as new technologies and brands, and to secure access to raw materials and distribution networks (Athreye & Kapur, 2009; Crescenzi et al., 2016). Hattari and Rajan (2010) identified that motivations for Indian companies to go overseas are multidimensional and include resource seeking, technology and R&D seeking, expanding product mixes, market seeking, risk-diversification seeking and efficiency seeking. Many investments of Indian companies (but also of other BRIC country firms) are geared towards developed Western countries (Hermelin et al., 2011; Holtbrugge
& Kreppel, 2012; Narayanan & Bhat, 2011; Narula, 2010), which contradicts earlier assumptions that investments from EMNCs would be mainly towards other emerging economies. Particularly Chinese EMNCs were for a long time regarded to concentrate on resource-seeking investments (Mathews, 2006; Narula, 2012; Ramasamy et al., 2012), although in their case a differentiation should be made between Chinese state-owned and private companies (Athreye & Kapur, 2009; Kaplinsky & Morris, 2009). As emphasized by Fortanier and van Tulder (2009) and Ramasamy et al. (2012), market-seeking internationalization is the dominant motive (rather than asset seeking) for private EMNCs regardless of their country of origin. By establishing a presence in advanced countries, EMNCs gain greater proximity to advanced country firms as a means to facilitate the acquisition of superior technological knowledge, marketing advances or managerial practices (Buckley & Hashai, 2014). The fierce competition they face in developed markets may help them to learn from competitors and to overcome disadvantages resulting from negative country-of-origin effects (Holtbrugge & Kreppel, 2012).

2.2. Foreign market-entry strategies in advanced business services

The growing importance of EMNCs requires a re-examination of the typologies that exist for explaining the entry mode for international expansion of firms (Dunning, 1993; Grimes & Miozzo, 2015; Rugman et al., 2011). A common differentiation is between greenfield investments (a new subsidiary or affiliate), brownfield investments (joint venture with a local firm) and acquisitions (Meyer & Estrin, 2001). As many hybrid forms exist, classification problems easily emerge, such as when a firm locates in a certain country to follow existing international clients to a new country. Majkgard and Sharma (1998) make a differentiation between market seekers and client followers. Client-following firms operate in a network in which their exchange partners operate internationally (Majkgard & Sharma, 1998). In a client-following internationalization strategy, a service provider follows a lead-firm or existing client in its international expansion or market presence. Less uncertainty is felt when entering foreign markets, but there is limited engagement with, and access to, local strategic assets. The risk of such a strategy is being dependent on a single client while being excluded from localized networks and knowledge flows. For a market seeker, success abroad is contingent upon the ability of the firm to find partners to cooperate with, and to establish relations with abroad (Majkgard & Sharma, 1998). Investing in a host country enhances a firm’s ability to serve the market by facilitating greater understanding of client behaviour and greater acceptance of the firm’s products in the host country (Chari & Acikgoz, 2016). For market seekers, there is greater necessity to participate in local networks in host countries and put effort in gaining local legitimacy. Particularly for EMNCs, participation in local networks in host countries enables them to distance themselves from the image of the parent company, and build their own reputation and legitimacy (Wang et al., 2014).

Internationalization and foreign market-entry strategies of advanced business service firms have gained increasing prominence in studies on corporate globalization (Faulconbridge et al., 2008; Jacobs et al., 2015; Jones, 2005; Taylor et al., 2014). Business services include not only higher order services such as investment banking, accountancy, management consultancy and IT consultancy, but also more routinized administrative and technical services such as software development, back-office activities and call centres. With
regard to delivering higher order services, business service firms are induced to transnationalize in order to fulfill service demands of globally operating clients (Jacobs et al., 2015; Jones, 2005; Lambregts, 2008). Their competitiveness contains a component of a firm’s ability to provide a service in all areas of the global economy a client is operating in (Jones, 2005). This involves, in the first instance, being based in the main economic centres of the world, whereas client-following strategies are regarded to be most common among business service firms. For business service firms, Taylor et al. (2014) make a distinction between ubiquitous presence versus a strategic presence approach, based on whether business service providers need to have a presence in as many cities or only in the main economic centres of the world. The former would apply to activities like accounting or banking and the latter is more associated with advertising or architecture. In the second part of this paper, it will be highlighted how ubiquitous presence matters for ICT-ITES delivery.

Research on ICT-ITES delivery has largely focused on the relocation of work to lower cost locations in the global South (Bunyaratavej et al., 2011; Dossani & Kenney, 2009; Lambregts et al., 2015; UNCTAD, 2005, 2012). A range of services previously thought to be non-tradable are now being provided electronically over large distances (World Bank, 2007). Common examples of lower order business services include data entry and other types of ‘back-office’ work such as administrative labour as well as over-the-phone customer service work (i.e. call centre work) and telemarketing, which are also undertaken through call centres (Thite & Russell, 2010). Recently, also more skilled work, including IT/software work, as well as research and development, are undertaken through this model of work organization (Thite & Russell, 2010). With more knowledge work provided from afar, the dichotomy between advanced business services (that require proximity to customers) and routinized service work that can be offshored is changing. However, as will be highlighted in the second part of this paper, the delivery of ICT-ITES, even when work is carried out from afar, does require, at some stages in the business relation, close proximity between the client and the service provider. Furthermore, it necessitates ICT-ITES service providers to be present in the main economic centres in the world or elsewhere where multinational clients are located.

3. Methodology

Research by means of semi-structured interviews was conducted from August to November 2013. Semi-structured interviews, which allow for an open two-way communication, are the most appropriate strategy when limited knowledge is available on the potential number of respondents and their accessibility. Indian ICT-ITES companies located in the Netherlands were identified and mapped not only through lists of support organizations, such as the Netherlands India Chamber of Commerce and Trade (NICCT), the India Business Desk of the municipality of Amsterdam (Amsterdam inBusiness), but also by searching the Internet. A total of 60 Indian companies were found through these methods. In some cases these turned out to be letterbox companies or companies that had closed already. Eventually, 40 companies with active presence were identified. Collaboration with Platform Outsourcing Nederland, the main network organization of firms involved in service outsourcing in the Netherlands, enabled us to get in touch with some initial respondents. Subsequently, snowball sampling enabled us to get in
contact with more respondents, which led to 20 companies agreeing to participate in this research. These interviews, on average, took 1 hour and included representatives from the 5 largest Indian ICT-ITES companies (tier one companies), 10 representatives from companies that are between place 6 and 20 on this list (tier two companies) and 5 representatives from smaller Indian companies (tier three companies).

By including the largest Indian ICT-ITES companies in this research, we were able to get a representative picture of what is by far the biggest part of the Indian sector (in terms of size of contracts and overall employment provision) in the Netherlands. Whereas the larger companies shared similar stories and motivations for locating in the Netherlands, information from smaller (tier three) companies in some cases represented exceptional stories. When talking about Indian ICT-ITES firms in the second part of this paper, it refers to tier one and tier two companies unless mentioned otherwise. The interviewed representatives of Indian ICT-ITES companies included sales officers, IT managers and country or regional directors, and were both Dutch (10 respondents) and Indians (10 respondents). The interviews focused on their motivations to locate in the Netherlands, the position of the Dutch branch in the international network of the company, their participation in Dutch networks and the longer term prospects of locating in the Netherlands. In addition, key informants were identified (sometimes based on recommendations of earlier respondents) and interviewed, such as representatives of consultancy firms, outsourcing platforms, India business desks and other supporting organizations. In total, 15 interviews were held with key informants. These interviews helped to get a more general understanding of the Dutch ICT-ITES market, participation of Indian firms in local networks and outside observations on Indian ICT-ITES companies. The interviews were transcribed and data were analysed by grouping the data under the key themes that this research focuses on.

4. Motivations for international expansion of Indian ICT-ITES companies

The Indian ICT-ITES sector first captured broader public attention in the Western world when Thomas Friedman wrote down his observations of a visit to Bangalore in *The world is flat* (2005). At that time, Indian companies had already built a reputation in low-cost software programming and in their work towards solving the anticipated Y2K problem. The size and quality of India’s IT–BPO workforce, its international mobility and its low cost compared with high-income countries are the main reasons for the industry’s competitiveness (ADB, 2012). Starting with basic data entry activities and low-cost programming in the late 1980s, the ICT-ITES evolved to being capable of offering IT systems integration services (Dossani & Kenney, 2009; Raychaudhur & De, 2012). During the past 20 years, production of software and BPO services in India surged from $200 million to reach $98 billion in 2015 (NASSCOM, 2016).

A part of the internationalization strategy of Indian ICT-ITES companies is the establishment of service delivery facilities and regional offices in key customer markets in order to acquire domain knowledge of clients and seek out new business opportunities (Hattari & Rajan, 2010; NASSCOM, 2010). Compared to the traditional services provided by the Indian service providers (e.g. software development), services that are higher on the value chain require more intensive communication between the customer and the supplier (van den Bergh, 2007). A main motivation for their international expansion is that India’s
initial advantage, based on privileged access to low-cost labour in the home country (see also Buckley & Hashai, 2014), is no longer sufficient to compete internationally. Large Western ICT-ITES companies such as IBM, Capgemini, Accenture and HP have moved in India and successfully emulated the cost-arbitrage business model pioneered by Tata Consultancy Services (TCS), Infosys, Wipro and HCL Technologies (EPW, 2013). Indian firms are therefore no longer unique in their (L)-locational advantage of a large pool of labour at home, which is often regarded to be a key asset of EMNCs (Hennart, 2012). Western ICT-ITES companies now often have larger numbers of workers in India than in their respective countries of origin. Through their Indian offices these companies also have access to a pool of Indian workers who can be deployed for work on location in Western countries (Burgers & Touburg, 2013; Hedberg et al., 2014).

During the early 2000s the criticism was that, apart from qualified and relatively inexpensive human resources, most Indian ICT-ITES firms did not seem to have other key resources to provide competitive advantage (Dayasindhu, 2002). At that time, the Indian firms were not large enough to bid on the largest and most sophisticated contracts (Dossani & Kenney, 2009). Most Indian firms did not have a strong global delivery capability, and thus found it difficult to provide a complete solution for the world’s largest firms (Dossani & Kenney, 2009). This (O)-ownership shortcoming of Indian firms is still present as was highlighted in an interview with a Dutch consultant:

> When Indian companies don’t have a comprehensive presence in Continental Europe they will never be able to compete with companies like IBM or HP. Multinational client companies with offices in 50 or so countries need service providers who can serve them in all these countries. IBM, HP or Unisys can do that because, historically, they are based in all these countries or have long-term relations with local subcontractors. Indian companies still need to lay out these networks. (Interview, 19 August 2013)

Whereas ownership shortcomings of EMNCs are commonly associated with the lack of technology and internationally recognized brand names (Hennart, 2012; Narayanan & Bhat, 2011), it can also involve lack of global delivery capacity. In order to overcome this disadvantage, Indian companies had to establish a presence in the main markets and near potential customers (e.g. through the establishment of regional delivery centres). This demonstrates how catching up with Western competitors is another key motive for their internationalization strategy. They may have similar operational capacities but lack the global market presence of Western ICT-ITES multinationals. By blending onshore delivery in the main markets with a strong offshore supply capability in India, Indian ICT-ITES companies improve the effectiveness of their service delivery to global clients (Pradhan, 2007). Onshore and nearshore service centres (i.e. in the host country or in a nearby country) help Indian companies to expand their global delivery capabilities by building on the technical and non-technical skills sets of the local workforce such as language skills and cultural compatibility (NASSCOM, 2010). Local presence in Continental Europe yields recognition of being an international player, which should increase the chances of acquiring contracts from multinational firms. This also has implications on how we should evaluate the international dynamics in the ICT-ITES sector. Whereas the sector is frequently associated with the relocation of activities to lower cost locations, with subsequent fears for job loss (Blinder, 2006; Fernandez-Stark et al., 2011; UNCTAD, 2012), it stimulates a counter-process in which service providers are stimulated
to locate near (Western) customers and be present in the main economic centres in the world.

5. Indian companies on the Dutch service outsourcing market

The ICT-ITES sector tends to be treated in an undifferentiated fashion (UNCTAD, 2012; World Bank, 2007) with limited detail for the variety of service domains and extent to which activities can be relocated abroad or require regular interaction between the client and the vendor. There was a discussion with respondents on what service outsourcing in practice involves for client companies and service providers. As was highlighted by a Dutch consultant:

Outsourcing means a longer term relation (of say, three-five-seven years) in which you take over a certain part of the client’s operations or service delivery. This is different from hiring 500 Indians to produce a piece of software that is ready after six or nine months. It involves an ongoing relation between client and service provider. (Interview, 19 August 2013)

A longer term relation between the client and the service provider strengthens the necessity to be in close proximity to each other and have a common agreement on what is expected and can be delivered. Especially when it includes work at the premises of the client company, the service provider and client need to have a profound understanding of each other and potential cultural barriers need to be overcome, an aspect in which Indian firms face more challenges than Western firms (see Section 6; Hermelin et al., 2011). Longer term relations also make it more complicated to switch between service providers, particularly when it involves taking over personnel from the client company (e.g. in case an IT department is outsourced).

Most Indian companies start their European expansion in the United Kingdom. Similar to the US, it is a sizeable and relatively mature market for outsourcing and offshoring of services. Indian respondents highlighted that being located in the United Kingdom is not enough for accessing the Continental European market. In order to get access to this market, the Netherlands has become an attractive destination, with easier conversation in the English language compared to countries such as Germany or France. For them there are two Europes: the United Kingdom and Continental Europe (the Eurozone). The latter would not always be as accessible for Indian companies, mainly because of language barriers and more resistance in some countries towards service outsourcing.

Both Dutch and Indian respondents emphasized the maturity of the Dutch service outsourcing market. Dutch companies are regarded as the frontrunners in initiating new models for service outsourcing (e.g. multivendor strategies). Multinational firms from the Netherlands were among the first in Continental Europe that started outsourcing elements of their business. The presence of various international companies (Shell, Philips, ASML, Unilever, ING, etc.) with a relatively long tradition in outsourcing of services was mentioned as the key factor that makes the Netherlands an attractive country for Indian firms. The first Indian ICT-ITES company that located in the Netherlands was TCS in 1992. Most interviewed companies located in the Netherlands from the mid-2000s onwards, to illustrate how the international outlay of service networks is still a recent phenomenon, with the most recent one locating only a few months before the interview was held.
Eleven companies only have a sales office in the Netherlands, while service delivery is carried out on location at the client’s office or undertaken from India. The largest Indian companies (TCS, Cognizant, Wipro and Mahindra Satyam) have a combination of a sales office and a local service delivery centre, in addition to employees working at the client’s office. The other interviewed companies included two sales offices for IT-related products (selling banking products and surveillance technology) and two acquisitions of Dutch companies currently operating as a call centre and a hardware data recovery centre servicing the European market. Client-following strategies are prevalent in this business to business sector as 12 companies landed in the Netherlands as a result of already existing customer relations or contracts, mainly first approached and managed from the United Kingdom and to a lesser extent directly from India (see Table 1). In all cases, once the work had reached a minimum threshold and could no longer be catered from the United Kingdom office, then a local subsidiary is started. This is a risk-free strategy for entering new market (Govindarajan & Ramamurti, 2011; Hattari & Rajan, 2010), while in some cases Indian companies also left the Netherlands once there was no longer enough work to maintain a local subsidiary. Since ICT-ITES delivery (like other business services) requires limited investments in fixed assets, companies can switch between locations easily.

Tier one companies have an all-round focus, which involves that they target a range of sectors and service domains (Table 2). Tier two and tier three generally enter the market as niche players (see Section six). These companies are mostly involved in serving the financial sector (eight companies) and engineering sector (five companies). Typical of business service providers (Jacobs et al., 2015; Lambregts, 2008), the Indian firms co-locate in the main urban regions, with the sales offices of 31 companies being located in the Amsterdam region (Amsterdam, Amstelveen and Hoofddorp), followed by the Hague (six). Amsterdam has its banking and financial district (the Zuidas) and the Hague, the telecom sector. The high-tech campus in Eindhoven is popular as a location for local service delivery facilities and work at client companies.

To overcome shortages of skilled IT professionals in the Dutch market, the visa requirements for non-EU knowledge workers have been eased. Still, having Indian workers on location in the Netherlands is costly as according to Dutch labour law, knowledge migrants are entitled to a minimum gross income of €38,141 (for workers below 30 years old) or €52,010 (for workers above 30 years old). On average around 70–80% of the workforce of Indian ICT-ITES companies in the Netherlands are Indians. In case of the largest Indian ICT-ITES service provider in the Netherlands, it means that around 80% of the 1000 workers based in the Netherlands are Indians, whereas another 2500 workers serve the Dutch market from nearshore (Central Europe) or offshore (Indian) locations.

Table 1. Investment types of Indian ICT-ITES companies in the Netherlands.

| Tier 1 companies | Acquisition | 1 | Greenfield investment | 4 |
| Tier 2 companies | 3 | 7 |
| Tier 3 companies | 2 | 3 |
| Total        | 6 | 14 |

Source: Fieldwork 2013.
5.1. Activities undertaken in the Netherlands

The principal motivations for client firms to get involved in service outsourcing are usually cost reduction, efficiency improvements, focus on core activities and a reduction in headcount (Bunyaratavej et al., 2011; Ernst and Young, 2013). IT services are outsourced most frequently. Once these services are outsourced, organizations are willing to identify outsourcing opportunities for business processes and other services (Ernst and Young, 2013). Table 2 provides for the five largest Indian ICT-ITES companies and their activities on the Dutch service outsourcing market.

This overview illustrates that the largest Indian companies are still mainly active in application management. The activities in this domain can be done from afar the easiest, but contracts have the shortest duration. Here, Indian firms utilize their (dwindling) advantage of a large pool of low-cost workers in their home country. It also demonstrates that they are still delegated to their traditional activities which they are trying to move away from and for which they locate in Western countries. BPO services when serving the Dutch market often require Dutch language skills and are therefore less attractive for Indian firms as it takes time and effort to build local operational capacity. This is also the case for end-user management, which often requires direct presence at the workplace of the client. For these activities Indian companies sometimes establish partnerships with local service providers. Infrastructure management is the most significant subsector in terms of value and duration of contracts, but is dominated by large Western multinationals (e.g. IBM, HP Enterprise Services and ATOS) and Dutch providers (e.g. KPN IT solutions). In this domain Indian service providers have the disadvantage of being latecomers on the world stage and not having been able to build longer term trust relations with clients. Client companies would not switch that easily between service providers in their infrastructure management as in practice all their business activities rely on it. Companies would be less willing to delegate their IT infrastructure activities (e.g. cloud data storage) to Indian companies. Service providers store and process the personal data of their clients’ customers and unfamiliarity with Indian companies makes client companies more cautious on who then has access to such data, as India’s data protection laws do not match the protection standards of the law in the US or Europe. Such concerns give established Western service providers an advantage in this service domain.

| Table 2. Activities of the largest Indian ICT-ITES companies on the Dutch ICT-ITES market. |
| Application management (e.g. application development and management, test management, helpdesk and support) | Infrastructure management (e.g. application hosting, data centres service (cloud services), systems management and maintenance, security) | End-user management (e.g. workplace management, device management, service desk, email servers, break-fix services) | Business process outsourcing (e.g. human resources, financial and administrative processes, call centres) |
| --- | --- | --- | --- |
| Tata Consultancy Services | Active | Less active | Less active | Less active |
| Infosys | Active | Not active | Not active | Not active |
| Wipro | Active | Less active | Less active | Less active |
| HCL Technologies | Active | Less active | Not active | Not active |
| Cognizant | Active | Less active | Not active | Not active |

Source: Giarte (2014).
An advantage that Indian ICT-ITES companies have as latecomers in the Western market, as highlighted by various Dutch respondents, is that they largely missed the first wave of service outsourcing in the mid-1990s and early 2000s. At that time service outsourcing often involved taking over personnel (e.g. IT departments) from client companies. This meant blending company cultures and in some cases taking over expensive (older) personnel with long established routines and skills sets that were not always up to date. Indian companies have a preference for deals in which they do not have to take over personnel from the client company, although these deals are most common in application management.

Client companies increasingly have a multivendor strategy, where the total amount of outsourced work is delegated to different service providers. This is to avoid that they become too reliant on a single service provider. A system integrator (company) takes a coordinating role and tries to bring order in the work of the various hardware and software service providers. A system integrator needs to collaborate and communicate with internal constituents in a company and with external service providers and have knowledge on (and functional capacity of) the different service domains as illustrated in Table 2. A systems integrator must be trusted sufficiently to become an advisor (Dossani & Kenney, 2009). So far the largest Indian ICT-ITES service providers have only slowly become successful in acquiring the position of system integrator. Dossani and Kenney (2009) highlight that Indian system integrators have a number of weaknesses, one of which is that they are not fully internationalized, in part as a result of their current competitive advantage being based upon their Indian cost structures. This illustrates again that Indian companies are not as much able to provide global solutions to the largest multinational companies as they still lack a global delivery capacity.

6. Strategies in the Dutch ICT-ITES market

Indian service providers perform well in client performance studies of ICT-ITES service providers, where three Indian companies are part of the top five most highly rated service providers (see KPMG, 2012, 2013). Interviewed key informants of client companies emphasized the good working relation with Indian service providers. A representative of a Dutch company whose two prime partners are Indian service providers, who also took over some personnel of the Dutch company, highlighted:

"The partners had to be save landing spots for our personnel in terms of employment conditions and future employment perspectives. We also favoured their mind-set on how to approach business. These companies perform excellent in distributed teams. The extensive backbone in India vouches for flexible delivery. The main difference between Indian service providers and Western providers with a presence in India is that the Indian providers incorporate a mentality that radiates this level of flexibility." (Interview, 22 November 2013)

Other Dutch respondents also highlighted the extensive talent pool and flexible delivery capacity as key competitive advantage of Indian companies. In addition, the cost differential remains an important reason to select Indian service providers. To mitigate their latecomer disadvantage, Indian service providers strategically position themselves lower in the market than Western competitors to make headway in the European market by accepting a lower profit margin. This is a common strategy for EMNCs (cf. Athreye & Kapur, 2009), which often emerge as price-based competitors when first entering foreign markets.
Second tier Indian companies often pursue a careful strategy when entering the Dutch market. They locate only when a minimum threshold in amount of work has been reached and are selective in the orders that they bid for. Some tier two companies can deliver the same broad range of services as tier one firms but profile themselves as niche player. Being ‘big enough to deliver, and small enough to care’ is a phrase used by respondents of tier two companies to convince customers to work with them. For non-multinational clients, tier one service providers are often regarded as being too large and they might feel out of proportion compared to the large size of the service provider. Smaller service providers are aware that they would not be able to beat tier one competitors in size and therefore need to emphasize the intensity of the relationship with their clients. By depicting large service providers as impersonal in their companionship and giving priority to mega deals, tier two players position themselves distinctively within the market. As a strategy, once they have acquired a contract, they will try to show their customers that they can deliver a range of related services as well. One representative of an Indian service provider revealed how they became the preferred service provider for a Dutch client:

The secret is to enter a company as a niche player, to position yourself within the market based on your absolute speciality. Once you have signed a contract through that niche, other opportunities within the same company will arise as a spin-off effect. Aside from our specialties, we are able to deliver exactly those services that other, larger, players do. (Interview, 9 October 2013)

The interview quote illustrates that Indian companies slowly evolve from client followers to market seekers, but only once they are already settled. Unfamiliarity with Indian service providers is still hindering them, but slowly disappearing. As one Indian respondent emphasized: ‘I no longer have to start my presentations with five slides of general information on India’. Indian companies have realized that they need to spend extra money on recruiting experienced local sales personnel and hiring local deal makers (e.g. consultancy firms) who have extensive experience in the market. The importance of Dutch sales personnel is acknowledged by all Indian firms. These people are expected to broker the deals and convince local clients to engage with Indian service providers. Large parts of the Dutch market are still unattractive or difficult to access for Indian companies. Tenders for government contracts are written in a protective manner (e.g. with special requirements on data protection), which make it difficult for Indian companies to bid successfully. Typical for client-following firms, the Indian firms so far have a limited involvement in local network organizations for service outsourcing firms.

6.1. Local capacity building of Indian firms

The suggestion that Indian companies merely have front offices to acquire orders that will be processed in India only applies for companies that recently entered the Dutch market. In addition to their local sales offices, Indian companies are increasingly establishing local service delivery centres. Some of these centres have multilingual staff for serving other Western European countries where the scale of operations is not yet enough for a permanent presence. Local delivery centres are part of an asset-seeking strategy of accessing local expertise (Holtbrugge & Kreppel, 2012; Mattes, 2013; Nair et al., 2015). The necessity to
have a base for local operational capacity was highlighted in different interviews with Indian respondents. As one Indian respondent mentioned:

For higher-end work, you need experts; IT architects, solution designers, experienced and knowledgeable people who can really engage with clients. They should be here, to give them the value at a strategic level. We acquired a delivery centre in the Netherlands. That was a strategic move. Customers will then know that you are serious about the region. (Interview, 21 August 2013)

And, as highlighted by an Indian country director:

In order to manage functional requirements within an outsourcing environment, you need local skills and capabilities. You need people who speak the local language and people who know about local laws and regulations, in order to handle the nuances of dealing with a Dutch client. (Interview, 11 September 2013)

Local delivery centres help to solve issues in the local language (e.g. in case of end-user activities) and enhance the local visibility of a company. These centres should be regarded as a next step towards further local embeddedness of Indian firms and help them to break into other segments of the service outsourcing market for which greater local presence is required. Furthermore, this is an indication of a longer term interest in the host country. Through such centres work can also be done entirely onshore in case the client requests that. To further enhance their service delivery, the largest Indian companies have established nearshore service centres in Central Europe (Krakow, Warsaw and Budapest). Herewith they follow Western service providers who have established delivery centres here (Hardy et al., 2011; Micek et al., 2011). Nearshore locations have the advantage that work is done in the same time zone and, in case of problems, people can meet face to face much faster; moreover, it is also cheaper to have people working nearshore than having Indians working on location in the Netherlands.

7. Conclusion

By focusing on the entry strategy of Indian firms in the Dutch market for ICT-ITES delivery, this paper aimed at integrating two themes: the growing presence abroad of emerging market-based multinational firms and the international dynamics in the ICT-ITES sector. In the extensive literature on EMNCs, there are still knowledge gaps on how internationalization strategies work out in different sectors. The (O)-ownership and (L)-location advantages of Indian ICT-ITES companies, based on privileged access to a large pool of workers in their home country, are no longer sufficient to compete internationally as many Western firms were able to build up similar operational capacity in India. As latecomers in corporate globalization, Indian ICT-ITES companies have several disadvantages: in global delivery capacity, in the ability to become trusted partners and in accessing market segments (both activities and types of clients). Whereas these disadvantages are typical for EMNCs (Athreye & Kapur, 2009; Buckley & Hashai, 2014), they currently delegate Indian ICT-ITES firms to the less profitable segments of the market, where contracts also have a shorter duration.

Indian ICT-ITES companies lack the global service networks that many of their Western competitors have developed in the past decades. Ubiquitous presence is required in higher end ICT-ITES delivery, but establishing local branches in countries of client
companies is still an ongoing process for Indian companies. This restricts Indian companies in bidding for higher value-added activities in the ICT-ITES sector. More research could focus on understanding the strategies of Indian ICT-ITES firms (or other types of EMNCs) to overcome their latecomer disadvantages. Mergers and take-overs as expensive strategies to fast-track the seizure of market share and to overcome latecomer disadvantages (Athreye & Kapur, 2009; Nair et al., 2015; Thite et al., 2016) are less important in the ICT-ITES sector. The ICT-ITES sector requires limited fixed assets and strategic human resources can easily be deployed elsewhere when markets are no longer attractive. Beyond the homogenizing label ‘EMNCs’, a greater understanding is required on how international strategies are performed in different sectors and how sectoral characteristics and structures rather than country of origin are the key explanatory factors for internationalization strategies of EMNCs (cf. Boehe, 2015; Ramamurti, 2012). In the Indian ICT-ITES sector, the internationalization strategy is driven by the demands of globally operating clients, the requirements to engage in more profitable service domains and the narrow base of their initial competitive advantage. Being international latecomers also has advantages (cf. Cuervo-Cazurra, 2012), such as EMNCs benefitting from lower institutional barriers to foreign direct investments and advances in transportation and communication technologies, or (as in this research) missing the difficult pioneering stages of a sector’s development. These could be subject to further investigation to overcome a one-directional bias or North–South perspective that mainly highlights the latecomer disadvantages of EMNCs.

Most companies in this research entered the Dutch market through a client-following strategy and only once a critical mass in terms of amount of work has been acquired, local sales offices (market seeking) and delivery centres (asset seeking) are established. This low-risk strategy of international expansion is typical for business services firms (Faulconbridge et al., 2008; Jones, 2005). Market seeking, which has often been cited as key motivation by EMNCs to invest in Western countries (Dohse et al., 2012; Narula, 2010), only becomes relevant in a later stage, when ICT-ITES firms aim at expanding in Western markets. Asset seeking by establishing local (or nearshore) delivery centres then comes afterwards. Unlike prominent international acquisitions by Indian firms in other sectors (cf. Buckley et al., 2015), these firms internationalize with caution and their integration in the host market takes place gradually.

This paper highlights that ICT-ITES service firms have not as much been studied as advanced business service firms that require global presence (cf. Taylor et al., 2014) and strategically utilize global networks for their service delivery. More research can be conducted on how these networks evolve and how service providers strategically utilize onshore, nearshore and offshore service delivery capacity for serving different types of clients (see also Thite et al., 2016). This includes research on how Indian ICT-ITES firms become trusted partners of global lead firms and become integrated in their global innovation networks rather than loosely engaged in their production networks (as currently in application management). As argued by Ujjual and Patel (2013), stronger integration into global innovation networks coincides with a deepening of local embeddedness. This leads to the final argument, this research illustrates that whereas the ICT-ITES sector is commonly associated with the relocation of work to the global South, it also stimulates new investments in the main economic centres of the world and in
locations on the edges of it. This should lead to more prolific discussions on the impact in the Western world of the increasing global trade in services.

Notes

1. For comparison, IBM started in the Netherlands in the 1930s.
2. In 2014–2015, Dutch telecom company KPN had radio commercials in which it promoted its ‘Dutch cloud’, emphasising that with them your data will be safely stored in the Netherlands. See also http://www.computerweekly.com/blogs/outourcing/2011/05/unclear-indian-data-protection-law-needs-clarity-for-it-industry.html.

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