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Steering the global value chain of an SME under uncertainty: the case of GlobeNet

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INTRODUCTION: A NEW DIRECTOR IN THE HOUSE

Mr Kim Lindholm had recently taken up his new position as managing director at GlobeNet Corporation. He expressed excitement about the job and the challenges it offered him. The company has a long history and has established itself as a market leader in its niche. The management team takes pride in the technological capabilities of the firm and the global partner network they have built. However, some changes are inevitable as the market continues to transform.

Mr Lindholm had accumulated experience in various organizations in technology-intensive sectors; thus, he knew the type of business GlobeNet was in. He would be able to utilize his know-how from the IT sector and his extensive experience working with marketing and sales channels, although he had previously worked in large companies. For this reason, working in a small- and medium-sized enterprise (SME) was a personal challenge for him, and he knew he would need to learn how to run the operations of a global yet relatively smaller firm.

THE COMPANY AND ITS PRODUCTS

GlobeNet Corporation is an SME that operates in the technology-intensive sector of education. The company, which is headquartered in Finland, employs fewer than 100 people, but it serves customers in over 100 countries throughout the world. Its first product was manufactured in the 1960s when it was still part of a larger organization. In fact, the company was established as a result of a series of mergers and acquisitions. Thus, the GlobeNet brand is actually built on a number of strong brand names. Shortly after the turn of the millennium, the company became an independent SME through a management buy-out.

The company offers a combination of hardware and software products, although its hardware production has been completely outsourced to a trusted partner. During its long history, the company has undergone several major technological transformations, and the current product range utilizes multiple different technologies. One of GlobeNet's major achievements is that it is the first in the world to introduce a virtual product that can operate on normal computers without any special hardware. Characteristic of many Finnish companies, the company takes pride in its strong technological competence. In fact, the company has a very competent in-house technology team. Nevertheless, it also collaborates with multiple partners in technology development.

MANAGERIAL CHALLENGES

During his first weeks at GlobeNet, Mr Lindholm had many detailed discussions with his new colleagues and learned a great deal about the market and the ways in which operations had been run. Rapid technological changes have typically been associated with parallel changes in the market. However, he soon learned that changes in the market are not as fast as in many similar ones because the introduction of new technology tends to be rather slow in educational institutions. Therefore, the end users rely on relatively old technologies.

Moreover, some educators are reluctant to incorporate new technologies into their teaching, mainly because they are afraid of technological failure during lessons. In contrast, the other group of end users (i.e. students) are young, eager to utilize new technologies, and not afraid to try new things. Nonetheless, it is the teacher who decides on the methods to be used in the classroom, and their decisions are limited by the available equipment. Mr Lindholm was somewhat puzzled by this combination.

He also learned more about how GlobeNet products are sold from his colleagues. First and foremost, GlobeNet sells its products through a global network consisting of around 200 partners around the world. The sales channel partners are quite a heterogeneous group, including firms ranging from very small installers of hardware to multinationals offering extensive solutions for learning. Moreover, the headquarters also sells directly to customers who acquire large installations. For example, education ministries in some countries may decide to equip all their schools in certain regions or in the whole country with GlobeNet products. In such large projects, GlobeNet is directly involved in bringing together partners that will contribute to final delivery and completion. The third and final sales channel is through its own international offices, the number of which has been slowly rising during the past few years, although it is still relatively low. For example, in the United Kingdom, GlobeNet sells exclusively through its own sales office.

Mr Lindholm understood that GlobeNet's roots run through the company's sales channels and that their operations—carried out through international sales partners—are essential for maintaining the company's global reach. He discovered that the GlobeNet team had developed important skills for managing its internationally expanding partner network. Nonetheless, based on his colleagues' comments, he also knew that some of the existing partners would not be up to the challenge of selling advanced software-based products.

Hardware-based products have played a very strong role in the GlobeNet portfolio. They continue to generate considerable income, but their share is inevitably declining. In comparison, software-based products are more complex, thus requiring a different kind of know-how from the sales partners. For example, partners need to be able to advise customers on the required hardware. The problem seemed to be that many of the relationships with existing partners were long-standing and had been productive in the past. However, they are unlikely to make the necessary adjustments to cope with the ongoing changes in software-based products. However, it is clear that GlobeNet has been doing well so far as it has been able to build an extensive sales partner network and make global operations a reality despite its size. In addition, Mr Lindholm discovered that the share of large project sales had been slowly rising and that the trend is likely to continue in the future.

Meanwhile, Mr Lindholm had already familiarized himself fairly well with the other members of the top management team, many of whom had been working at GlobeNet for quite a long time. Thus, they knew the company and the market inside out. The top management team comprises five other members aside from the managing director: chief financial officer Mr Henrik Holm, chief technology officer Ms Jenny Hansen, vice president (VP) for business development Ms Paula Hall, VP for sales and marketing Mr Harry Mattsson, and VP for global partner network development Ms Mia Jensen.

The chief financial officer is in charge of finance administration and served temporarily as the managing director before Mr Lindholm was appointed. Hence, the former has a deep understanding of the whole company. He perceives the size of the company as a challenge in renewing partnerships. The chief technology officer not only heads the technology development team and oversees collaborations with technology partners, but is also actively involved in the customer interface when novel customer needs are being discussed. She perceives that in terms of technology development, the company has some partners with which the collaborations function well. However, when there appears a need to develop something novel, the company faces a problem in searching for a suitable partner, and getting started with the development takes too much time. The VP for business development is the newest member of the top management team and could potentially introduce new ideas. Despite being new to the company, she is well aware of the challenges related to renewing the existing partner network that has served the international operations of the company well in the past. The VP for sales and marketing heads the sales and marketing crew. He emphasizes that the daily operations are functioning very well with the partner network. However, he also recognizes that some of the partners lack perspective on developments beyond their own narrow market. Finally, the VP for global partner network development is responsible for managing the global partner network. She stresses the significance of strategic partnerships for the company since the company gains market insight but also access to bigger deals.

Most of the top management team members had accumulated years of experience in the firm, and Mr Lindholm noted that they seemed to have a good understanding of how GlobeNet products are being used in classrooms. On the one hand, he expressed pleasure at being surrounded by this competent group of managers. On the other hand, he seemed slightly worried about how they would react if he introduced reforms to the company.

Moreover, he is quite content with the organizational structure of the company. The size of the technology team is relatively small compared to that of the sales and marketing team. He knows that the product development engineers are highly competent and that the team could expertly handle the development work in collaboration with the global partners. Nevertheless, running a sales partner network of over 200 partners requires many hands, so he is quite happy that the sales team is large enough relative to the size of the firm. From his earlier experiences with sales channels, he has also learned the importance of having frequent contact with partners.

Mr Lindholm also recognizes the fact that maintaining partners' motivation is crucial to the success of any partnership. In sales partnerships, it is especially important that, in addition to product-related know-how, each partner has sufficient incentive to sell the products in question. However, the challenge is how to apply this knowledge to the partnerships of an SME. As a small operator, GlobeNet does not always have much leverage in its relationships, and the sales team personnel have to find innovative ways to motivate the partners to work in ways that are beneficial to GlobeNet. Thus, Mr Lindholm thought that the sales and marketing capabilities of the firm might need increasing attention in the future.

THEORETICAL INSIGHTS

Despite its small size, GlobeNet operates across the globe, and its value chain is dispersed worldwide. As the company's offering comprises both hardware and software products, it is involved in actual physical production and in a great deal of coding and other knowledge work. In addition, sales partners are a vital part of the company's operating model as they enable reaching and serving customers on all continents (except Antarctica). This kind of organizational structure can be labelled a *global factory*, a concept introduced in the early 2000s by Buckley and Ghauri (2004) based on their analysis of corporate ownership and location strategies. Although their conceptualization focused on large multinational corporations, more recently scholars have identified SMEs with similar organizational structures and global outreach (Eriksson et al., 2014). However, despite organizational similarities, there are also clear differences.

First, for globally operating SMEs, the role of a partner network is significant. Building and maintaining a wide network of partners enables an SME to grow; however, this process is also accompanied by many challenges. In particular, the management of the global factory structure poses problems because the network comprises independent organizations, and GlobeNet does not have the hierarchical power to impose demands on the partners (on the role of trust and control; see Eriksson et al., 2014). Thus, SMEs with a global factory structure must develop novel managerial and organizational capabilities to steer their organizations.

Second, small global factories like GlobeNet operate almost inevitably in a business environment that is volatile, uncertain, complex, and ambiguous (VUCA). This implies that the company has to be able to adapt to changes in the market and in the wider environment. Operating on multiple continents and within a technology-intensive sector means that there are constant changes, and mere ad hoc problem-solving is insufficient for survival and sustained success. In addition, the firm has to strike a balance between different sales models

while engaged in the development of its channel and partner portfolio to serve future needs. Therefore, it can be argued that GlobeNet needs dynamic capabilities to sustain its competitive position in the market.

Dynamic capabilities theory aims to explain how companies develop and sustain competitive advantages in changing environments (Teece et al., 1997). According to Teece (2007), dynamic capabilities consist of three different but necessary capabilities: sensing opportunities, seizing them (i.e. preparing to leverage the opportunities), and transforming the firm (i.e. reconfiguring the organization and its resources). A firm with dynamic capabilities is argued to be more capable of adapting to changes while also proactively engaging in creating change.

CASE ACTIVITIES

Mr Lindholm, the new managing director, wanted to ensure that he understood the current situation of the company. At the same time, he wanted to discuss his views of the company's future. The company had a long tradition, which he saw as both a strength and a weakness. In particular, the strategies that had worked well in the past and made the company a global leader were beginning to become outdated, and renewal was necessary to grow and maintain GlobeNet's leading position. At the next top management team meeting, he plans to engage the team in a discussion of what made the company successful in managing its internationally expanding value chain and what would be required in the future as the market slowly changes amid a VUCA environment.

Each of the top management team members should have the opportunity to analyse how to steer the value chain of the company from the perspective of their own role. For example, how should GlobeNet organize its global value chains? Is its current global factory structure appropriate for its future operations? What capabilities would GlobeNet need to steer and manage its global value chains in the future? How would you ensure that the company possesses them? And if the company encountered a severe and unexpected external shock (e.g. the emergence of a global pandemic), how would that affect the company's global value chains? What capabilities would the firm need to maintain its functionality as a global factory in the case of such an external shock?

Mr Lindholm hopes for a lively discussion but also understands the importance of reaching a joint conclusion on the course taken by the firm in organizing its global value chain. Furthermore, the management team must ensure that they have the capabilities needed for the future.

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