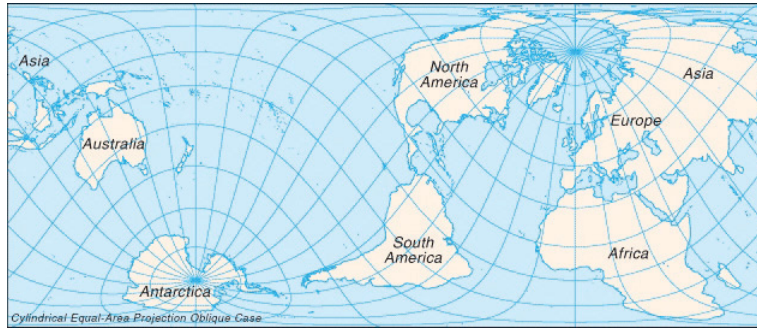


15.1: Chapter Introduction

Global Entrepreneurship and *Intrapreneurship*



WHAT'S IN IT FOR ME?

1. Who is an entrepreneur, and what is entrepreneurship?
2. What do entrepreneurs do?
3. What is entrepreneurship across borders?
4. How does entrepreneurship lead to global start-ups?
5. What is intrapreneurship?

This chapter will explore the subjects of entrepreneurship and intrapreneurship in international business. It is through both the differences across countries and the flatteners that are reducing such differences that entrepreneurial and intrapreneurial opportunities are created or identified. For instance, countries have different average income levels, but regardless of income level the people in those countries have medical care needs. An entrepreneurial or intrapreneurial move in this setting would be the introduction of a low-cost medical treatment for an ailment common to both high- and low-income countries. As a business student, you may be able to take electives in entrepreneurship, so view this information as *sensitizing* you to the field, rather than making you an expert. You will gain more knowledge of both entrepreneurial process and its related field, *intrapreneurship*. Whereas entrepreneurship is concerned with starting new businesses, intrapreneurship is concerned with starting something new, like a new product or service, in an existing, established business. Intrapreneurs may take on more risk than a traditional line-management employee; but it's risk within parameters or within course boundaries—to use sports as an analogy. Entrepreneurship, on the other hand, is more like helicopter skiing—there's no safety net and no safe path or course boundaries. Intrapreneurs who fail are very likely to still have a job, perhaps moving into a new role in their company. Entrepreneurs, most of whom aren't funded, don't have a guaranteed monthly paycheck; failure means complete failure. Throughout this chapter, you'll also learn how entrepreneurship and intrapreneurship are important in global markets.

Opening Case: eSys Technologies

Why Go Global? Because It's What Entrepreneurs Do!

Entrepreneurs are go-getters who seize opportunities and work tirelessly to overcome obstacles. Entrepreneurs who expand internationally face even more risks and challenges, but many of them thrive on those very challenges because those challenges bring previously unseen new opportunities. Our opening vignette, which is about eSys Technologies LLC, provides one case in point. eSys founder Vikas Goel used the global playing field to his advantage to build his company in creative ways.

Vikas, in Sanskrit, Means Growth

Vikas Goel grew eSys at an astonishingly fast rate from very humble beginnings. Goel launched his company in 2000, during the time when companies were cratering due to the dot-com economic crash of tech companies. Few would have bet that Goel's eSys, which aimed to distribute hard disk drives (HDDs), stood a chance in the down environment. But Goel saw things differently.



Source: “Singapore-CIA WFB Map.png,” Wikimedia Commons, accessed June 3, 2011, http://en.Wikipedia.org/wiki/File:Singapore-CIA_WFB_Map.png.

Seeing and Doing Things Differently

“An exceptional entrepreneur is able to identify a threat which nobody wants to touch and convert it into an opportunity,” said Goel.eSys Information Technologies, “Ernst & Young Entrepreneur of the Year 2005 Award Goes to Mr. Vikas Goel of eSys Technologies,” news release, March 10, 2006, accessed June 16, 2010, www.esys.in/NewsDisplay.php?ID=141. Goel succeeded in the early years by bootstrapping his success. Operating in Singapore, he went to the Bank of India to ask for a loan, making a presentation directly to the CEO of the bank. Goel’s passion and plan garnered him a loan of US \$3.5 million, which he immediately put to work. Goel’s first job after graduating with his MBA had been with American Components, for whom he distributed (very successfully) Seagate HDDs in India.

Rekindling former ties, Goel offered to distribute Seagate HDDs through eSys. Seagate agreed and, having developed trust and confidence in Goel, gave him rights to distribute Seagate HDDs in other countries as well.

Seagate’s competitors, seeing the success Seagate was having through eSys, signed on with eSys as well. By 2004, eSys was distributing Seagate, Maxtor, and Western Digital HDDs to the tune of 20 million disk drive unit sales, making eSys arguably the largest HDD distributor in the world. Vikas Goel, “Vikas Goel and eSys,” July 7, 2010, accessed December 23, 2010, www.vikas-goel-esys.com/index.php/vikasgoel/vikas-goel-and-esys.html.

A big contributor to Goel’s success is his local sales-force approach. Despite operating in twenty-five countries, each eSys sales team is an in-country local team that understands local culture.

Building on the success of his distribution business, Goel next decided to expand into manufacturing. In particular, Goel’s vision was to manufacture and sell a PC under the eSys brand that would retail for \$250, making it affordable to a broader range of consumers. The price point of \$250 was aggressive—none of eSys’s competitors could profitably sell a PC for that low a price. To succeed in his goal, Goel would have to be very creative in taking out all unnecessary costs. Goel was able to achieve the \$250 PC goal by cleverly taking advantage of country-specific differences. For example, eSys set up manufacturing plants next to its regional logistics hubs. The move seems counter-intuitive. Most firms would set up manufacturing in China to get the lowest cost, but Goel thought through the distribution and tax implications that his costs would be even lower. Labor may be cheap in China, but physically moving inventory from remote places takes time. In addition, China levies a 17 percent value-added tax. Singapore, in contrast, has no such tax and is a logistics hub with fast, easy shipment to all of Asia and beyond. Accordingly, Goel set up manufacturing plants in the hub locations (Singapore, Dubai, Los Angeles, and New Delhi), taking advantage of low inventory costs and building state-of-the-art software-controlled facilities to reduce labor cost.

Goel also made innovative use of financing. For example, he bought insurance on the credit he borrowed, making his lenders the beneficiaries of that insurance. Going the extra step made his lenders and vendors even more comfortable extending credit to eSys, which saved Goel the equivalent of about 2 percent annual interest. Jack Stack and Bo Burlingham, “My Awakening,” *Inc.*, April 1, 2007, accessed December 23, 2010, www.inc.com/magazine/20070401/features-my-awakening.html.

And the Winner Is?

Goel’s smart moves won him Ernst & Young’s Singapore Entrepreneur of the Year award in 2005 and put him in contention for Ernst & Young’s World Entrepreneur of the Year award in 2006. In the end, the E&Y judges didn’t choose Goel as the World

Entrepreneur of the Year. That honor went to Bill Lynch of South Africa, who, after arriving from Ireland in 1971 with a village-school education, few prospects, and 2,000 British pounds, turned a money-losing car dealership into a \$6 billion transport and mobility empire. Thirty years later, Lynch's business was enormous and thriving. Whether Goel's venture could last that long remained to be seen. Some of the E&Y judges questioned the staying power of any company operating with a pretax margin of less than 1 percent. But longevity aside, Goel had already demonstrated that it was possible to improve efficiency and cut costs in just about every area of a business by taking advantage of the technological tools of the new world economy and operating on a truly global scale.

From day one, eSys was the prototypical born-global firm—one that has been defined as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.” Benjamin M. Oviatt and Patricia Phillips McDougall, “Toward a Theory of International New Ventures,” *Journal of International Business Studies*, First Quarter 1994, 49, accessed December 24, 2010, aib.msu.edu/awards/25_1_94_45.pdf.

Even though Goel did not win World Entrepreneur of the Year, Jack Stack, legendary CEO in his own right and a judge at the E&Y World Entrepreneur competition, was truly impressed when he met Goel, calling eSys “the first truly global start-up I’d ever seen. By that I mean it was the first company I knew of to operate worldwide almost from day one, taking advantage of the cost savings available in different countries.” Jack Stack and Bo Burlingham, “My Awakening,” *Inc.*, April 1, 2007, accessed December 23, 2010, www.inc.com/magazine/20070401/features-my-awakening.html.

Stack praised Goel for the following:

- Locating eSys distribution hubs in country locations to reduce inventory costs
- Buying insurance from Switzerland and Germany to get the best rates
- Setting up back-office and IT operations in India for lowest wages coupled with high skills
- Handling finances out of Singapore, which has the lowest effective tax rate in the world Jack Stack and Bo Burlingham, “My Awakening,” *Inc.*, April 1, 2007, accessed December 23, 2010, www.inc.com/magazine/20070401/features-my-awakening.html.

In 2007, Goel sold a majority interest in eSys to India's Chennai-based Teledata Informatics Ltd. for \$105 million. Gabriel Chen, “eSys Lays Off Staff ahead of Teledata Merger,” *Strait Times*, February 22, 2007, accessed December 23, 2010, www.sg-electronics.com/Singlenews.aspx?DirID=77&rec_code=60181. Teledata and eSys also announced their likely investment of \$20 million in Chandigarh, India, to open a total-business-offshoring/outsourcing (TBO) unit, with at least 1,000 employees. Teledata's CEO explained the rationale behind the acquisition: “Every year we buy 3,000–4,000 personal computers for several e-governance projects. This year, we plan to buy 15,000 PCs. The eSys acquisition will now make these projects cost effective.” “Teledata Buys Singapore Firm for \$105mn,” *Business Standard*, February 19, 2007, accessed June 16, 2010, www.business-standard.com/india/news/teledata-buys-singapore-firm-for-105mn/275156/. With the acquisition, Goel assumed the title of CEO of Teledata Technologies and will hold 49 percent ownership in that company. eSys already has a PC-manufacturing unit in Delhi and is in the process of setting up another unit in Himachal Pradesh, India, to produce 1 million units per year. Consistent with his track record of cutting costs, Goel noted, “We might shut down the Delhi plant and shift the entire manufacturing capabilities to the new centre.” “Teledata Buys Singapore Firm for \$105mn,” *Business Standard*, February 19, 2007, accessed June 16, 2010, www.business-standard.com/india/news/teledata-buys-singapore-firm-for-105mn/275156/. When asked what work means to him, Goel's answer was simple but powerful, “It's about making your business your passion, rather than making your passion your business.” eSys Information Technologies, “Ernst & Young Entrepreneur of the Year 2005 Award Goes to Mr. Vikas Goel of eSys Technologies,” news release, March 10, 2006, accessed June 16, 2010, www.esys.in/NewsDisplay.php?ID=141.

Opening Case Exercises

(AACSB: Ethical Reasoning, Multiculturalism, Reflective Thinking, Analytical Skills)

1. What kind of people would do well working for eSys? Do you think, for instance, that you would need a good understanding of international business to do well in eSys?
2. Goel's business model might make some people and certain stakeholder groups uncomfortable. What if every company were able to set up operations globally so as to minimize expenses, including taxes? Where would governments get the money for essential functions? What would happen to standards of living around the world? The eSys model is clearly great for eSys, but what if everybody adopted it? Is this a practice the business world should encourage?
3. How should government policymakers work with companies like eSys? Should this type of cross-border arbitrage be entirely unregulated? (For instance, there is no law in the United States regulating whether a US company locates its tax headquarters in

the United States or a more tax-favorable country like Bermuda.) Can we rely on each nation to set up its own laws and regulations, or is this an example of why we need supranational governments like the Organisation for Economic Co-operation (OECD), the European Union, and trading blocs?

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