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**ESC: Firm Growth Through Internationalization**

Marguerite, like her father, Jan, held Sundays special and the Wilders family never discussed the ESC business her parents had founded in 1972. She was out on the sailboat she had inherited from her father, thinking about the major decision that, once again, they had put off for too long. It was now June 2012 and the decision should have been made over a year ago. ESC needed to make a choice: where to risk its future, and how. Should ESC resume a European expansion path with a major market entry into Germany, which represented 50% of their potential European market? They knew from experience how to do this, it was now feasible, but it would be costly. Or should they move to where the greatest opportunities for growth lay: China?

**ESC’s Business**

***The Process Monitoring and Control industry***

ESC develops, installs, maintains and monitors Process Monitoring and Control (PMC) systems and equipment for manufacturers. This equipment ensures that manufacturing processes run continuously at high efficiency. Interlinked sophisticated sensors detect and interpret process faults within highly complex manufacturing equipment before they cause serious problems. Factories rarely stop because of process faults and no longer have maintenance shut-downs. PMC systems detect when something might be going wrong, so that engineers can keep the factories running without costly stoppages. They are usually installed when new factory systems are being built and are updated when new equipment is being introduced. ESC has typically supplied these systems to manufacturers of automobiles, domestic appliances, and other electrical and mechanical products.

Manufacturing accounts for a declining proportion of GDP in mature, developed economies, and there are fewer manufacturers in each market segment. To remain competitive and reduce their overhead costs, manufacturers have outsourced services not considered to be “core,” as well as skills and facilities such as the design and installation of PMC systems no longer maintained “in-house.” The demand for specialists able to design and manage the installation of PMC systems has therefore been growing. These specialists need a complete range of high-level but practical competencies in different forms of electronics and engineering, for hardware and software, within

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a framework of interdisciplinary teams. Industry reputation is most important for establishing new relationships. ESC’s current CEO, Marguerite Wilders, describes the business:

“Our business is to enable manufacturing directors to sleep at night, because they will know that their factories will still be working in the morning. For us to survive, they have to trust us not to mess up, ever. And they will pay a big premium to get some sleep. And their firms can justify it, because the costs of missed or delayed production are massive and the costs of our input is tiny in comparison to the costs of production shortfall or of the rest of the manufacturing capital equipment, for that matter.”

Retaining customers therefore requires the development of a deep understanding of customers’ manufacturing problems and issues, and the ability to respond quickly to problems and developments “on-site” as they occur. PMC specialists also need to be able to retain the complete trust of customers, much of whose competitive performance might depend upon them. The experience of a long working relationship within which expectations have been met without disappointment is likely to be as, or more important than, apparent technical competence. This is easier when customers are in close physical proximity. The heart of the business was and remains the trusting relationships it develops with customers and with its collaborators on large contracts. These relationships take a long time to develop, but can be destroyed quickly if there is a fault in the PMC system that causes a shutdown

**The 1970s**

In September 1972, two months after his 30th birthday, and with a birth due in November, Jan quit the Dutch subsidiary of US-Tronics, the giant global PMC system supplier, and with his wife established ESC in two rooms of their new home, using their entire savings. Haan Smit, a good friend from school who had left US-Tronics two years earlier, said that his new firm could probably give Jan PMC installation work, and other colleagues who had subsequently quit and gone to good jobs elsewhere said to call them if he needed work. Jan’s engaging manner, straightforward dealing, technical competence and reputation, most importantly among the many former colleagues scattered throughout the Dutch manufacturing industry, proved to be successful.

Within the first year, Jan had secured 18 months’ work for himself and two young employees (one recruited from US-Tronics and one straight from school). Jan had friends throughout the industry, and two decades later he became chairman of the Electronics Industry Association. Customers increasingly wanted to “offload” the whole of their PMC problem on to a firm they could trust, meaning that ESC was finding an eager market. By 1976 it employed 18 qualified engineers and six apprentices. It was capturing customers who otherwise would have gone to one of the many smaller local suppliers of these systems, who did not have the same level of competence that Jan and his engineers had honed from their time working at US-Tronics, the most technically competent supplier. He was also taking business away from US-Tronics. ESC offered a faster, more personalized and tailored customer service, reflecting deep appreciation of the customers’ factory plans. ESC was also able to work more collaboratively (and less contractually) with the firms installing the factory systems and with the customers’ own engineers, and was typically a lot cheaper. While its engineers were technically competent, ESC did not face the massive R&D overhead that US-Tronics faced.

The oil crisis and worldwide recession in the late 1970s coincided with appreciation of the Dutch guilder after the discovery of large gas reserves in the country. Dutch manufacturing output fell, manufacturing plants were closed, and investment in new manufacturing equipment almost ceased. At about this time, Jan saw how dependent he was on his “old friends” in the industry. He had never had an organized marketing approach — business arrived from his old contacts and from referrals, and more than 70% was repeat business from satisfied customers. Nearly all his customers were located within two hours’ drive of Jan’s home.

Two ESC engineers were transferred to help search for new work. New customers were found from the whole of the Netherlands and from the neighbouring countries of Belgium, Denmark and Western Germany. These contracts, particularly those farther away, were harder to win, required detailed contractual negotiations, and were more prone to result in misunderstandings, difficulties, arguments, and renegotiations. In addition, the detailed on-site help that the engineers were used to giving customers, often without costing them carefully, was much more difficult and costly at greater distances. Overall, the cost of the engineers’ time away from home on unforeseen service visits made these foreign contracts unprofitable. Moreover, this engineering support had previously been seen as a way of developing customer knowledge and better relationships, which would ultimately be rewarded with preferred-supplier status on further contracts. Distance made the development of these deeper relationships more difficult, and ESC was rarely a preferred supplier for more profitable repeat contracts in the other countries.

Jan managed to survive this period of losses by tapping financial reserves built up during the first few years. Also, nearly all of ESC’s small competitors in the Netherlands collapsed during this period. This experience gave Jan fundamental lessons about the foundations of good business:

“First, there are the relationships you form with your colleagues and with your customers. There must be harmony with both. They trust you, and you are able to trust them. Second, there is cash. Without cash, you owe money, and this is bad.”

**The 1980s and 1990s: ESC becomes the largest Dutch PMC firm**

With a more accurate approach to the costing of new contracts, and a new professionalism in their marketing approach, the business grew rapidly when the economy recovered in the early 1980s. ESC was well placed for a massive catch-up in investment expenditure — its expertise was now well recognized, and it was now one of the few suppliers in the country. However, they were cautious about the growth and concerned to replenish the cash reserves.

The reputation of ESC, however, grew with every satisfied customer. Initial contacts adopted positions of increasing seniority in customers’ businesses, and Jan often met them when leading or participating in functions within industry organizations, with which he was heavily involved. The business had developed largely through individual customers demanding more and more — both because of their increased and more frequent investment in PMC equipment and because they were increasingly relying on ESC to take complete responsibility for the job. Jan responded in two ways.

First, he hired more people to take charge of each specialist area, and ensured that their skill and knowledge levels were as high as possible. By 1992 Jan was employing 55 people with a range of specialties. He had developed a relationship with a university to upgrade the technical capabilities of all his engineers, who typically spent between two and four weeks training each year, more than those at US-Tronics. ESC was not part of a global technology manufacturing company, like US-Tronics, and did not have a vast R&D department, but many customers did not see this as a disadvantage. ESC offered something different: long-term personal relationships with local but highly skilled engineers whom customers got to know well, and who would not be pulled away to work with a different customer elsewhere in the world.

Second, he built up a strong network of cooperative relationships with businesses and people with whom he felt he could confidently work. They helped install the systems, which included the development and integration of software, the supply of particular types of hardware, and the construction and assembly of his “own” parts. Customers knew that they were, through ESC, accessing a strong network of relationships, and they felt reassured that the entire task was covered. It was of significant value for customers to have ESC control and manage the whole job rather than to try to coordinate all the different suppliers, relationships and technologies themselves.

A number of organizational practices also helped the growth of a complex business that would distinguish itself from US-Tronics. One was a culture of complete openness within the firm, which matched Jan’s own character. Meetings, usually quite short and involving all those in the building, were held daily at 8:30 a.m. to discuss current issues and future plans. The exchange of ideas and views was also encouraged over lunch, and the canteen in the new building had been designed to facilitate this. Most extraordinary, visitors, usually actual or potential customers, subcontractors or suppliers, often joined these discussions over lunch and were also welcome to the morning meetings.

**The pressures and process of internationalization**

***Decisions and actions become critical***

ESC was also seeing that their customers increasingly were large multinational corporations (MNCs) that were organizing manufacturing on an international, if not a global, basis. Only US-Tronics, and one other US-based firm, could offer international servicing like this. Over time, it would be difficult to remain a purely Dutch firm. Working through this issue with an international strategy consultant, they realized that they had to internationalize, at least within Europe. They would need to find a way of doing this which would maintain the quality of relationships that was ESC’s distinctive quality, but do that both locally and profitably. A key part of what they offered to customers was the closeness and intimacy of their service, through which they developed strong, trusting relationships, a good reputation, and repeat business. For that they would need to have people based near any new international customers.

At the same time, they needed to capitalize on and preserve their great reputation and trustworthiness. That would require tight control over what their people did, without which their reputation might be compromised. The consultant presented a framework which they found helped them to work out what they wanted to achieve (Exhibit 1). They realized that this framework, which had been developed for international manufacturers, could be interpreted in a specific way for ESC. ESC faced two slightly different needs: local responsiveness in service and global control of technical knowledge, skills, and reputation. That meant ESC would need to be GLOCAL in its own special way. A vision developed for ESC “branch” service depots in South Holland/North Belgium; Germany; and the UK. This would enable international growth while maintaining the solid local working relationships that were essential for enhancing ESC’s good reputation, profitability, and competitiveness against US-Tronics.

This vision, however, was never acted upon. ESC’s growth was higher and more volatile than it had been, led by the growing fashion for manufacturers to “buy in” the supply of specialist skills and services; a greater demand for ISO 9000 quality accreditation (where ESC had pioneered in quality standards); and high rates of investment in new manufacturing facilities. With the contracts becoming larger and more complex, everyday business took up all the management time.

In 1999, ESC was presented with the kind of opportunity they had foreseen but had failed to prepare for. Haan Smit, now group manufacturing director of a large Dutch corporation, was leading a long-overdue technological upgrade of a large manufacturer in the southern UK that his business had just purchased. Haan wanted ESC to help by working with his UK engineering team on installing an up-to-date PMC system.

The good fortune of Jan’s closest personal friend presenting a major opportunity in the UK, where there was substantial growth in manufacturing, meant that the UK became the primary and most urgent development. The first thing was to establish a new management structure. A new supervisory board was formed, comprising Jan and four outside experts with relevant experience, including an old friend who had recently retired from US-Tronics. The executive committee comprised Jan, two of the most promising senior engineers, and Marguerite as international development director. A former international manager of a large manufacturing multinational, with experience of managing operations and capabilities across borders, was appointed chief operating officer, with the plan to stay in the post for five years. He quickly took the day-to-day pressure off Jan, who then spent more time on industry committees and meetings and developing contacts to help the firm’s internationalization.

**Learning from success: Internationalization to the UK**

The UK PMC industry looked much like the Dutch industry had 15 years earlier, with two US giants dominating (one of which was US-Tronics) and many local smaller operators that were gradually going out of business, owing to their inability to invest sufficiently in new skills and knowledge. For speed, and to address local business practices, ESC worked with Haan’s company to find a partner firm. They needed a firm which had a good local reputation, but which needed to upgrade technically to take on higher-level work. It would work in a true partnership with ESC by being prepared to learn from ESC in the process. So, attitude and firm culture was most important: a focus on service (which ESC could not provide for logistical reasons in the UK) and a willingness to develop in technical capability, which ESC could help with. If the partnership was good, a longer-term relationship to find other customers in the UK might be possible.

In two hectic months they had met and discussed with nearly everyone in the industry in Britain. One firm stood out: a withering old family firm with deficient technical competence, but with a great reputation for service. A new management team had recently bought the firm, and some new well-qualified senior engineers had been recruited. ESC subcontracted the British firm to manage and deliver local technical support and service on the contract with Haan’s firm. It worked better than they could have imagined, mainly from the bottom up. Some of the British engineers were keen to see how ESC did things in the Netherlands. Engineers would stay for two weeks at ESC’s headquarters, partnering senior Dutch engineers on service visits. This was popular on both sides and it was easier to recruit UK engineers with higher technical abilities. For ESC, it reduced the pressure to send (often unwilling) Dutch engineers to the UK, and unused space at HQ was made into meeting and training facilities. While the formal technical competence of the British engineers lagged behind that of their Dutch counterparts, they tended to work with customers in a more relaxed and open way, which resulted in more innovative problem-solving and creativity. What had been envisaged as a one-way knowledge-transfer process turned out to be more two-way, and collaborations began between the Netherlands and the UK to use specialist skills.

Following an opportunistic bid for the UK firm in 2005, ESC was forced to choose between finding a new way of working in the UK or acquiring the firm. ESC bought 60% of the UK firm, which incorporated “ESC” into its name, and held first rights over the remaining 40%, which was held by the British management team. The business went on to win new contracts in the booming UK automotive industry, so that by 2008, the UK represented 25% of consolidated ESC group sales and 34% of ESC group profit.

**Learning from failure: Germany**

ESC had sporadically won business in Germany, including a large contract with a major Munich manufacturer. But the level of support and service inherent in ESC’s value proposition meant that contracts so far from home would be unprofitable without a local office within a couple of hours’ drive of the client. Germany might have been regarded as the first place for ESC to expand internationally. It is a close neighbour and ESC could win contracts there. It is Europe’s largest engineering manufacturing country, more than four times the size of the UK. It is the gateway to the many newly industrializing countries of Eastern Europe. But potential German customers had historically done the PMC design and installation themselves, often advised by engineering consulting firms, with technical documents, plans and discussions in German rather than English. Nevertheless, they were increasingly open to outsourcing the whole process, so the international PMC market leaders began developing operations in Germany.

The best way for ESC was therefore thought to be finding a suitable partner. In 2002, ESC formed a 10-year agreement with one of the larger Germany engineering consultancies. The German firm would present a “full-service” design, supply and service offer to its clients in conjunction with ESC. Their engineers would fulfil the design and service element. ESC would do all the materials supply work, manufacturing, and organization of equipment suppliers, which they would be paid for, earning at least 30% of the installation revenue of an ESC-branded project. ESC would quality-check and brand all equipment, but would have no client involvement. The agreement did not guarantee amounts of work that would be put through the ESC-branded option, but stipulated that ESC could work in Germany only through the partnership. By 2008, the German partner had won no contracts under this agreement and the partner firm would not meet or discuss the matter with ESC. The deal was a costly mistake and could well have been a disaster for ESC. The legal advice was not to try to enter Germany directly until 2012. Jan reflected that he had broken his own rule of business, of working only with people he knew well and could trust.

**Learning from success: Unplanned expansion in Italy and Eastern Europe**

One June morning in 2004 a gentleman from Ivrea, in northern Italy, dropped by without an appointment. Ten years younger than Jan, with a PhD in electronics, he was the founder-owner of a PMC Firm. His firm was struggling to keep up with the demands of his local manufacturers in the face of a strong competitive threat from the US giants, but had a large number of opportunities in the southern East European states. They discussed the industry and immediately understood each other. Many meetings were scheduled involving the executive board and senior engineers from the Netherlands and the UK, taking place both in the Netherlands and in Italy. The parallels with the situation in the UK were obvious and lessons from that success could be used. Within a month, they had a deal.

In the first year, the Italian firm would pay ESC to provide two-week training programs in the Netherlands for the Italian firm’s engineers from Italy, Croatia, Hungary and Slovakia. At the same time, new work would be gradually jointly branded by the Italian firm with the ESC brand, and with the spare capacity in ESC’s Netherlands factory ESC would manufacture critical elements of the systems that the Italian firm was installing for customers.

The collaboration developed quickly. With ESC’s technical backup, the Italian firm found it could do more challenging work, and its prices could be much higher. Furthermore, they found rapid success expanding their operations into Eastern Europe. ESC took a 10% royalty from the joint branded work, oversaw the technical designs from the Netherlands and provided training at a cost and manufacturing/servicing at modest profit. The engineers got to know each other, and sometimes British engineers interacted with the Italian engineers directly. In January 2008, ESC took a 20% shareholding in the Italian firm and the Italian firm took a 12% shareholding in ESC. The Italian owner joined the executive board. ESC held first option on the Italian owners’ remaining 51% share, enabling ESC to acquire this in 2012 when the owner wanted to retire. By 2008, the Italian joint venture represented 45% of 2008 group turnover and 20% of group profits.

**An evolving multinational enterprise facing big decisions**

In March 2008, Jan, now 70, retired and the chief operating officer became chairman. Remaining family members retired from the board, and an international board was constructed with Marguerite as managing director. The firm’s success was clearly rooted in the decision, led by Marguerite, to internationalize. New partnerships were being pursued, following a model for internationalization that involved partnerships with well-researched firms that ESC could later take full control of if they worked well. ESC was slowly developing, as opportunities were found, new joint venture businesses in Sweden, Finland, Spain and the Czech Republic. Marguerite reflected:

“All of us in this industry have seen so many businesses fail, usually because of single unfortunate badly timed decisions. We have been lucky. The German failure could have killed the firm, but because we did it the right way, we only lost an opportunity. We have survived, and well.”

ESC’s cash position was now immensely strong, but the extent of internationalization was still limited. It could not really regard itself as a European multinational until it was established in Germany, where ESC was still fielding requests from companies that wanted it to do work there. But despite an extensive search, ESC could not find a suitable partner, and it did not want to work with a consultancy that would deny ESC the most valuable aspect of its value proposition. So how else could ESC break into Germany? Any break with the way that it had learned to pursue internationalization would involve risk.

Maybe all this was wrong. Ten years ago they had followed their customers, but now their customers were moving farther, establishing factories in China, other ASEAN states, India, Brazil, Indonesia and other emerging markets. Domestic manufacturers in those countries were also investing massively. Manufacturing was shifting to emerging countries, and ESC was not there. They were losing business to US-Tronics and another global competitor who had become established internationally, but they knew that their business model, based on service, customer knowledge and trust, could stand up to that of US-Tronics, which was based on high R&D spending. Maybe it was time to develop in China, or Indonesia, or India? But would that be too risky? Did ESC have the capabilities? Internationalizing even within Europe had required massive changes in the structure and nature of the firm. But would their experience internationalizing in Europe work in other parts of the globe? How could they avoid these risks, which could kill the firm, while internationalizing to remain viable in the world over the longer term?

**Exhibit 1: A Schema of the issues of Globalization and National Responsiveness based on the ideas of Bartlett and Ghoshal**

**Exhibit 2: Key development events of ESC**

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| **Year** | **Development** |
| 1972 | Business founded |
| 1973 | Profitability achieved |
| 1977 | Unsolicited order from large Munich-based manufacturer |
| 1979 | Cutbacks and layoffs following effects of the oil crisis |
| 1992 | Joint venture partnership created in Germany |
| 1999 | Large contract with a partner in the UK |
| 2001 | UK joint venture created |
| 2002 | German partnership dissolved |
| 2004 | Italian joint venture created |
| 2008 | UK joint venture consolidated into ESC |
| 2010 | Italian joint venture consolidated into ESC |
| 2011 | Joint venture created in Spain |
| 2012 | Joint ventures created in Sweden and the Czech Republic |
| 2014 | Joint venture created in Finland |