THE FALL OF THE ROMAN EMPIRE
MYTH OR REALITY?
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The Fall of the Roman Empire
Myth or Reality

Inaugural Lecture

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by

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Introduction

Dear esteemed Rector Magnificus,
Dear esteemed Dean,
Dear colleagues and students,
Dear valued guests,

I once excitedly embarked on my research regarding offshoring, only to find out today that there is no more offshoring since there is no longer a shore. Or as Sam Palmisano, former Chairman of IBM phrased it:

“We all recognize that our planet now runs on global supply chains — not just for products, but for services. It is increasingly difficult to characterize what is an import and an export, since so much of what is imagined, produced and delivered is done in many places around the world. There is no more “offshoring”… when there is no longer a shore.” ¹

International business has experienced far-reaching structural changes (OECD, 2011). Global supply chains for example inhibit fragmentation in the way we produce and deliver our products and services. Different parts of activities, processes and tasks are being sourced on a global scale in various parts of the world, beyond the scope of the firms’ boundaries and local jurisdictions and with many partners involved. Firms have closer relations with suppliers and contractors and this tends to blur the firm’s boundaries. This development is also referred to as global sourcing.

In his six volumes of the history of the Roman Empire, from the early days of Christianity to the fall of Constantinople in 1453, the author Edward Gibbon (1776-1781) describes how the Romans were inviting in foreigners to handle their core business by outsourcing their tax collection and army.

Especially as far as the latter is concerned, I am sure we all agree that protecting a nation and its citizens forms part of the core business of any government. This historical example is these days cited by some when viewing the current situation regarding global sourcing in the West, referring hereafter to Western Europe and the US specifically. The fall of the Roman Empire can in their opinion be attributed to the mighty Romans outsourcing their core business. In drawing a comparison between global sourcing back in the Roman Empire and today, some forecast a dramatic decline and indeed a fall in the West. Building on this fear, there is a strong call for protectionist measures, for closing our borders to foreigners and for raising other barriers to global sourcing.

So what does the future hold for us in the West, and the Netherlands more specifically? Is the fact that we outsourced our monetary policy to the EU adding to our problems and eventually going to lead to our fall? Or are we strengthening our competitive edge as a nation by being part of the European internal market, and is it in fact vital for our survival in a global context? Should we, in order to survive as an economic power of substance, outsource more of our financial policy to the European Commission? Or does this form of outsourcing lead not only to our economic decline but eventually to the fall of a nation as a player of substance on the global market? EU countries outsourced their monetary policy. Some argue that this allowed them to capture the efficiency advantages of one common currency over many national currencies, such as reduced transaction and information costs and potential economies of scale in the financial sector as well as trade-enhancing effects (LeBaron and McCulloch, 2000). Was this a necessity for economic survival on a global playing field? Is the EU’s recent proposal to outsource its banking supervision by creating a banking union - in which 27 EU countries should submit their big banks to a single cross-border supervisor - a logical next step in this outsourcing process? Will it increase the EU’s competitiveness as one market, solving the Euro crisis and resulting in its economic rebound as a strong economic player? Or is Canada in this respect a better example for long term economic survival by choosing not to outsource its monetary policy to the US Federal Reserve?

“Just as we do not have mechanical rules for the path of policy rates, we do not outsource our monetary policy to the U.S. Federal Reserve. What
happens in the United States obviously matters for Canada, but this does not mean that our rates are tied to those of the Americans.”

Today I would like to discuss the impact of global sourcing on three levels: businesses, countries and citizens, by discussing my seven myths of global sourcing. Before doing so, please allow me to introduce you to the sourcing trinity: global sourcing, outsourcing and offshoring.

Global sourcing, as the umbrella for outsourcing and offshoring, is an area where globalization has moved from concept to practice. It is also an area where the world of international business and diplomacy meet. Global sourcing is not only about splitting up processes and tasks around the world in search of the lowest costs. It is also about the scarcity of resources, which is a global challenge demanding an integrated approach for solutions with the involvement of governments, businesses and citizens alike. Governments alone can not provide the solutions we need for a sustainable future with limited resources.

The sourcing trinity
Global sourcing or international sourcing is a strategy used by both service and manufacturing firms, allowing them to coordinate activities and exploit competitive (firm-specific) advantages as well as comparative (location-specific) advantages on a global scale (Cheng and Zang, 2006; Kotabe and Murray, 2004). By using a global sourcing strategy, firms determine which part of the value chain will be performed by which player and in which particular market and how components or finished goods or services will be produced. A value chain comprises all activities necessary to bring a product from conception to market (Giuliani et al, 2006). It includes product development, different phases of production, extraction of raw materials, semi-finished materials, component production and assembly as well as distribution, marketing and even includes recycling. As these activities may be spread over several different firms and countries, the value chain can become global (Cruz and Boehe, 2008). There is no consensus among academicians nor practitioners about the difference between value and supply chains. Some argue that the difference between a value or demand and a supply chain is that the latter is primarily focusing on

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2 Mark Garney, Governor of the Bank of Canada presented to Saint John Board of Trade Saint John, September 20, 2011.
reducing costs and attaining operational excellence (e.g. Feller et al., 2006). Value chains are in their view derived from customer needs and can focus more on, for example, innovation in product development. The focus on customer needs being conditioned by the larger social and economic environment rather than a focus on cost reduction is an important notion for my lecture this afternoon. I shall therefore refer in the remainder of my lecture predominantly to value chains.

Global sourcing is the umbrella for offshoring and outsourcing. Although the latter two are related, they are two distinct phenomena (Jahns et. al, 2006). Outsourcing is the relocation of activities that can be executed domestically or in a foreign location and always involves a third party. Offshoring is the relocation of activities and always involves a foreign location. There are two forms of offshoring referring to different foreign market entry modes (Kedia and Mukherjee, 2009):

- Offshore outsourcing – externally, by relocating activities via a third party to a foreign location.
- Captive offshoring – internally, relocating activities through the establishment of foreign affiliates for example by way of a Greenfield, a subsidiary or a merger or an acquisition.

**Developments in global sourcing**

When I started my research, offshoring was perceived and defined in the relevant literature as a cost-cutting procurement tool for relocating non-core activities via third parties to so-called low-wage countries, i.e. a method of procurement in search of lowest costs around the globe. Many sectors have followed this narrow approach and are still suffering from the negative consequences. The insurance sector is an example of the negative consequences of this too narrow approach to global sourcing, by treating it as a procurement issue and continuously building on legacies from the past. Many firms in the insurance sector are structured in silos of different insurance products and view sourcing as a procurement issue. Every silo engages in its global and local search for the lowest costs to buy for example its IT services from different third parties. This results in patchwork and a legacy of different IT systems with inefficiencies and compromised agility. The difference with purchasing decisions which
simply involve procurement, is that global sourcing may affect the entire organization, not just the procurement department, and often requires a strategic decision (Grossman and Helpman, 2005; Trent and Monczka, 2005; Gilley and Rashid, 2000). Any firm involved in global sourcing is required to take a long-term perspective because they often engage in long-term investment commitments and agreements with third-parties.

In my first research studies, I focused on providing insight in the offshoring behavior of service firms operating from the Netherlands (van Gorp, 2008). Apart from providing insights into the offshoring behavior of firms, the findings of these studies contributed to improving the understanding of the strategic logic behind the choices firms make between captive offshoring and offshore outsourcing as foreign entry modes. I presented a decision-making model showing how different determinants in the offshoring behavior of service firms interrelate and determine the foreign entry mode choice for relocating activities. In my later research I broadened the scope, and next to the service industry also included the manufacturing industry (van Gorp and Jagersma, 2010) and focused on offshoring to specific regions such as the Middle East and North Africa in my research for the World Bank.

Findings in my research were in line with the trend that firms split up various business processes and tasks to locate them around the world, allowing them to exploit both the competitive and comparative advantages of various countries. This implied that firms should increasingly move from efficiently managing single offshoring activities to reconfiguring whole processes and value chains in order to realize more value across the organization. In doing so, they need to learn to source, locate and manage human capital and activities on a structural basis anywhere in the world (Lewin and Peeters, 2006; Jagersma and van Gorp, 2002). Global sourcing brought them competitive advantages much more than cost savings. For example, it provided higher quality resources as most of the employees of the third parties are generally more highly qualified than their US or European counterparts (Kedia and Lahiri, 2007). Moreover, global sourcing
by firms in OECD countries increased significantly over the past decade, creating substantial value added for firms by enhancing the quality of products and processes and by reducing costs (OECD, 2010). In fact, non-adoption of global sourcing may eventually lead firms to either exit or downsize their operations and decrease their chances of competing with other firms (e.g. Coucke and Sleuwaegen, 2008).

**It is not just production, stupid!**

It was one of the of the reports of the United Nations Conference on Trade and Development (UNCTAD) referring to a perceived shift from manufacturing to services in global sourcing that first piqued my interest (UNCTAD, 2004). I discovered that the academic literature on this subject was still limited and any information available was mostly anecdotal and based on consultants’ reports. Whereas the added value of the service sector on the overall economic activity increased over the years, paradoxically relatively little academic research was done on the internationalization of services (e.g. Contractor et al., 2003) and global sourcing specifically (e.g. Shamis et al., 2005). This lack of insight in such an important pillar of our economy was the underlying reason for starting my research at the time.

Currently the relocation of goods by the manufacturing sector is still the most prevalent type of global sourcing (OECD, 2010). However, global sourcing of both goods and services by the service sector is growing more rapidly. It is apparent that although lagging behind in internationalization compared to non-service activities, over the years cross-border trade and foreign direct investments in services have increased. At the turn of the last century a shift from manufacturing to global sourcing in services took place when service firms started to source part of their service activities from abroad by configuring and coordinating different sourcing activities around the world. Technological advances in ICT, coupled with trade and investment liberalisation have enabled the emergence of global sourcing of especially IT-enabled services and a global labor market for (white collar) skilled workers (van Welsum and Vickery, 2005a,b). Developed economies

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3 OECD refers to Organisation for Economic Co-operation and Development. OECD countries refer to the 34 countries that are member of the OECD: Australia, Austria, Belgium, Canada, Chile, Czech Republic; Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New-Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.
are largely dependent on the service sector, and their labor force, legal and regulatory framework and productivity are under pressure due to the emergence of competing locations for the global sourcing of services activities.

Given the growing weight of services in economies, as well as the increased mobility of services and capital, I recommend that governments increase efforts to become or continue to be an attractive location for those service firms who employ global sourcing by exploiting the comparative locational advantages of various countries. Although differences in comparative locational advantages have always played a role in the internationalization of firms, today’s developments in the service sector happen at a much more rapid pace than was the case in the manufacturing industry. The growing importance of global sourcing in the service sector justifies extra attention from policy makers to the careful monitoring of these developments, and analysing their impact on countries’ competitive advantages.

At the same time, comparing the results of my different research studies over a number of years I conclude that whereas in the past there was a substantial difference between production and service firms in terms of global sourcing and their choice for a foreign entry mode, increasingly the difference between the two disappears. More and more manufacturing firms show the same behavior regarding global sourcing and especially their entry mode choice as service firms do. This invites us to disregard traditional distinctions between services and products. A possible explanation for this development can be that more and more production firms have service components (Prahalad and Krishan, 2008).

**Global sourcing in the eye of the beholder**

Global sourcing, and especially offshoring, is as much a political as an economical item on government agendas. Notwithstanding that there is no proven connection between global sourcing and high unemployment rates, firms and governments alike must deal with the public concern primarily focused on the negative effects, such as the threatening unemployment or the fact that the integration of lower-income economies into the worldwide division of labor tends to undermine the protection of domestic workers
through labor market regulations and traditional institutions (Neureiter and Nunnenkamp, 2010; Dreher and Gaston, 2007). Although it is often perceived that developing countries are benefiting more from global sourcing than developed countries, the fact is that the majority of the latter category are no more offshoring-intensive (when adjusted for economic size) than many developing countries (Konings and Murphy, 2006; Amiti and Wei, 2005). This is the reason why many developed countries are found to be net receivers of global sourcing i.e., the rest of the world relocates more activities to them than the reverse.

The benefits of global sourcing attract less attention from the public, and include for example higher consumer incomes because of the low prices of imported goods that are globally sourced; better quality of products and services; increasing productivity and efficiency gains; enhancement of export capacity; and increased competitiveness of the local business community thus allowing firms to expand their market shares, profits and capital spending and to create jobs in their home countries (Denis et al., 2006; Werner, 2009; OECD 2010). The focus on the negative effects of global sourcing can influence the electoral cycle. It can enhance the demand for political measures to restrict global sourcing initiatives as was the case in both the US and Western Europe.

The majority of studies measuring the impact of global sourcing have concluded that for the time being it has little impact on job losses in the country of origin (e.g. Konings and Murphy, 2006; van Welsum and Vickery, 2005a; van Welsum and Reif, 2006; OECD, 2010). Moreover, Western European countries are still major beneficiaries from global sourcing. There is no evidence that perceived job losses due to global sourcing can be explained by the dichotomy between low and high wage locations (Neureiter and Nunnenkamp, 2010). As a rule, the short-term employment effects of global sourcing are more important for manufacturing than for services. There is at the same time no systematic evidence that global sourcing is associated with a significant decline of aggregate job losses. The fear of job losses resulting from global sourcing is often based on the assumption that the number of jobs is exogenously
given and that a rise in employment in one country (offshore location) unavoidably leads to a reduction in another country (the country from which activities are being relocated). In the longer term, however, the number of jobs in a country is determined by interactions between the demand and supply of labor and the factors influencing them such as domestic and foreign demand for its goods and services (OECD, 2007a).

So far, the West has profited from the relocation of activities by firms as job creation has outweighed any job losses. This does not mean that there are no effects at all on the labor market. Global sourcing and technology may have a different effect on workers with different types of skills as the composition of the labor market changes (e.g. Liu et al., 2010; van Welsum and Reif, 2006; Head and Ries, 2002). The labor markets across industrialized countries suffer for example from a decline of low-skilled workers in total employment and this process has been taking place within most manufacturing industries (Geishecker et al., 2008). There is evidence that the number of jobs involved in global sourcing is larger when relatively low-skilled tasks are relocated than in the case of higher-skilled functions. It may indeed imply negative effects for low skilled employees, losing their jobs and not easily finding new ones. Therefore, the impact of global sourcing and especially offshoring may be different at the level of the individual worker than for the economy as a whole. Global sourcing in the service sector generally leads to new job creation thus offsetting job destruction. Indeed new services in the domestic economies have emerged leading to an expansion in the existing services sector. This effect can be expected to become more important over time with on-going technological developments and services trade liberalisation.

I argue, therefore, that governments in the West should focus on the positive effects of global sourcing such as job creation and increased productivity. In doing so I acknowledge that global sourcing may result in challenges which may require adjustment policies especially with regard to retraining low skilled employees for new jobs. It is important though not to give in to pressure coming from those who view global sourcing only as a threat resulting in negative labor market outcomes such as higher unemployment.
Further building on the outcome of my earlier research, I would like to discuss the impact of global sourcing on businesses, countries and citizens. I will do so by elaborating below on my seven myths of global sourcing. Seven myths showing that what is sometimes accepted as common knowledge regarding global sourcing, does not actually reflect reality. Discussing these seven myths - some are long and some are short - will lead to my conclusions about the cause of the fall of the Roman Empire and the future of global sourcing.
The impact of global sourcing on businesses

Myth 1: Global sourcing has had its day

*Longa via est*

*The road is long*

The road from the Roman Empire to today’s world has long been paved by developments in global sourcing. And we have still a long road ahead of us, with global sourcing taking us on new routes that I will further discuss in this lecture.

Indeed my last study shows that when compared with my earlier research, an increasing percentage of firms are withdrawing their previously relocated activities to the Netherlands. Frequently mentioned reasons for withdrawal are that it is difficult to manage and that costs are higher than expected. Furthermore, the quality of the product or service delivered at the foreign location is disappointing and labor productivity is lower when compared to the Netherlands. Management issues are the dominant reasons for withdrawing activities.

*Global value chains are here to stay*

Does that, however, mean that global sourcing is passé and on its way out as was stated so convincingly in the Economist in June of this year? I do not think so. Global value chains are here to stay and the search for sometimes scarce resources, such as talented people, will continue. Moreover, firms’ increasingly international boards make them more footloose and flexible in relocating activities to foreign locations as they are less tied to the local market. The fact that their boards of directors have

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5 [http://www.economist.com/node/21556094?frsc=dg%7Ca](http://www.economist.com/node/21556094?frsc=dg%7Ca)
increasingly culturally diverse profiles enhances the mindset towards exploring new locations for sourcing their activities. Therefore, global sourcing is likely to present challenges to citizens, businesses and governments for many decades (Doh, 2005). Does it mean that global sourcing will stay the same? No, of course not. New developments are taking place and are likely to stretch our imagination of how the future will look. Therefore, instead of using the soporific that global sourcing is over, we had better stay alert for and attuned to new developments taking place in the decades ahead of us.

Myth 2: Global sourcing is for large firms

Cum tacent, clamant
Through their silence, they are screaming

Small and medium sized enterprises (SMEs) seem to be the silent majority. We do not hear and see much about the relocation of their activities to foreign locations in the media as it involves a modest number of jobs on an individual basis. This is different if we look at a more aggregated level to this development. An increasing number of SMEs relocating their activities on a global scale may have a substantial impact on national economies if we look at their joint impact as opposed to looking at firms individually.

SMEs: the next silent and underestimated wave of global sourcing

Firms, whether small or large, are active in relocating their activities to foreign locations distant from their domestic market, and they switch between different entry modes when relocating their activities. They enter a foreign market in a non-linear and less organized way through foreign affiliates, which differs when compared to the incremental way by which firms traditionally internationalized. The relocation of activities to foreign locations by SMEs attracts less attention in the media, given the smaller scale of relocated jobs, which is less visible to the public eye and has less news value than the relocation of activities by large firms. However it is this development that “…. is turning on its head the traditional model of big companies’ outsourcing of jobs.” 6 The next silent and underestimated

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6 http://www.bbc.co.uk/iplayer/console/b00s55c9
wave of global sourcing will be led by SMEs attracting less media attention yet having a substantial economic impact.

**Myth 3: Firms take an incremental approach to global sourcing**

*Tempora mutantur*

*Times are changing*

Indeed times are changing and so are firms’ internationalization strategies that have developed through time. Traditionally firms, and especially SMEs, showed incremental approaches to their internationalization strategies, meaning that they would first enter nearby markets before entering markets farther afield. To date, many of the traditional internationalization theories still try to explain the internationalization of firms as an incremental process. Global sourcing and the use of third parties to enter new markets has enabled them, however, to leapfrog in their internationalization and enter distant foreign markets from the very beginning (Servais et al., 2007).

**Regardless of size and experience firms leapfrog into distant markets**

Today, regardless of their size and experience, firms make use of the experiences of third parties and the degree of perceived mental closeness to leapfrog immediately into distant markets instead of using nearby markets as a first stepping-stone to gain experience. This has led to the development of born globals, start-up companies that from the beginning take the globe as their playing field in which to look for their sources and sell their services and products. The founders of these firms realize that no single firm can provide everything, and that models of cooperation not based on ownership and control but on privileged access and influence are the norm (Prahalad and Krishan, 2008). Third parties with a global footprint are increasingly becoming an attractive partner to work with in relocating activities. The physical distance between the firm and its third party in the search for attractive investment or trade locations is these days of less importance than the trust that has been developed between sourcing parties, as well as the degree of mental distance or similarity between them. The mental closeness is for example determined by the willingness to jointly invest in and carrying the risk of developing new services or products and bringing them to the market. In this model of cooperation the
firm and its third party have equal accountability in the success or failure of sourcing projects, which is in many ways increasing their risks.

**Myth 4: Global sourcing involves mainly non-core activities.**

*De minimis non curat praetor*  
*Trivial affairs are not the concern of the authorities*

The Romans were bold in outsourcing less trivial activities, namely their core business of taking care of the safety of the citizens in their empire. Core activities refer to those activities that are vital for a firm’s, and in this case a country’s, continuity. In one of the leading theories explaining global sourcing in our times, the Transaction Costs Approach, core activities should always be kept in-house. Only more recently we again see a trend to use third parties for relocating core activities. So basically we follow the Romans again in outsourcing some of our core activities. This applies not only to the world of business; the same can be said to apply to governments in the EU considering outsourcing their monetary policy to a banking union on a European level.

What started as relocation of non-core production and IT activities has been transformed into the relocation of a broad portfolio of core activities varying from marketing and sales to research and development and management of activities. The majority of firms are relocating activities by way of foreign direct investment (i.e. captive offshoring). This type of global sourcing is more often associated with core activities to regions with a relatively high income level, and objectives are related to the availability of strategic assets. Global sourcing via a third party (i.e. offshore outsourcing) is more often associated with non-core activities, to regions with a relatively low income and objectives are related to cost advantages. Such cost advantages are by no means restricted to low labor costs and also include, for example, tax incentives. Firms are in search of high quality and talent represented in an adequately skilled labor force and thus enabling them to easily up- and down-scale their operations. Increasingly, firms are building collaborative partnerships with third parties where trust forms the basis and the focus is on knowledge transfer. The more trust-based relationships become, the more firms will move away from captive centers and use
collaborative partnerships to solve more complex problems in their organizations. This means a change in trust in and perception of third parties as conduits for lowering operation costs as they become major players in the transformation of business models that help in developing and providing innovative solutions to customers (e.g. Griffith et al., 2009). This development results in increasingly complex and new collaborative partnerships with third parties.

*From cost to knowledge arbitrage*

Firms move up the value chain with regard to sourcing their activities on a global scale. This involves the sourcing of processes that are analytical, complex and unstructured. It requires extensive and complex domain knowledge on the part of third parties often resulting in the creation of intellectual property. This is why offshore outsourcing is developing towards a multi-sourcing model with teams of individuals from various third parties, each with different specialist knowledge working together under time and budget constraints to produce a new product, process, or service. In this model, knowledge management has to surpass organizational boundaries, integrating third parties and clients into the firm’s boundaries (Parmigiani, 2007; Prahalad and Krishan, 2008). It also means that firms have less control over their third parties. Rather than focusing on controlling the relationship, the focus should be on establishing an environment of trust where sharing knowledge is the norm, and where knowledge creation and transfer become crucial factors for organizations in gaining and sustaining competitive advantage. Within these strategic partnerships, the third party and client are equally accountable in the success or failure of sourcing projects. For these partnerships to succeed, the search for talent is essential in firms’ efforts to source globally.
The impact of global sourcing on countries

Myth 5: Global sourcing only leads to job losses for the West

Libenter homines id quod volunt credunt
People believe what they want to believe

What we can learn from the past is that although facts may contradict emotions, the latter may actually delude our view on reality. It takes leadership by politicians and decision makers to take decisions based on facts and a long term perspective instead of focusing on short term gains. This type of leadership was not always available in the Roman Empire and often is lacking today as well.

As referred to earlier, the West are still net beneficiaries of global sourcing as host countries (OECD, 2010). In Western Europe, as in the US, lay-offs attributable to relocation abroad represent just a small fraction of the total number of workers made redundant. Those activities and jobs that are being relocated for example from the West to foreign destinations are generally compensated for by job creation. Although cost reduction is often an important objective for global sourcing, the majority of activities are relocated to locations with a relatively high income level (Bunyarataveja et al., 2007; Clark, 2010; van Gorp, 2008, 2010). This means that low wages are not decisive in identifying an attractive offshoring location. When looking at different categories of firms, it shows that manufacturing firms relocate activities relatively more often to locations with a lower income level, while other firms relocate their activities relatively more often to high income level regions. The wage sensitivity of investors declines indeed as the skill intensity of the industry increases (Liu et al., 2010). Investors in the least skill-intensive industries exhibit the largest wage sensitivity in choosing a host, which is in contrast with those who are in search of a high skilled labor force. High educational levels, issues regarding intellectual property
and cultural similarity - not to be confused with geographical proximity - may also be important indicators for firms when deciding on a foreign location (Bunyarataveja et. al, 2007; van Gorp, 2008, 2010). Thus in order to respond to any negative effects of global sourcing, such as potential initial redundancies, and to exploit possibilities resulting from global sourcing, I argue that countries do best if they create sustainable comparative locational advantages for the longer term rather than only focusing on wage differentials.

*Competitiveness of countries is determined by their labor market*

I would now like to take a look at the impact of global sourcing by firms on a country’s comparative advantage, with a focus on the labor market in the country of origin. The reason for this focus is that the competitiveness of countries is largely determined by the labor market, in terms of both the size of and skills in the labor pool. The Romans were fighting for land, today countries fight for talent. Over the past decades the skill premium and the supply of and demand for skilled workers have risen simultaneously in advanced countries (Nahuis and De Groot, 2003). The increasing demand for high skilled jobs and the lack of labor supply largely due to developments in the demographics, i.e. a growing population of older people in the West, will increase the gap between demand and supply on the labor market.

In Europe, as in the US, layoffs attributable to relocation abroad represent just a small fraction of the total number of workers laid off. Those activities and jobs that are being relocated from the West to foreign destinations are generally compensated for by job creation. However, as referred to earlier this does not mean that there may not be severe consequences for individual employees employed in lower skilled jobs due to a shift from low to higher skilled jobs. The fact that globalization in general benefits the average citizen does not mean that the gains are shared equally in society. Furthermore, technological progress also has an impact on wage inequality and the employment structure of advanced economies. Technological progress would eventually result in a lower price for low-skilled labor competing with new technologies, and a higher price of high-skilled labor gaining in productivity. The higher wages for skilled workers dependent on
their skills again leads to wage inequality, which has been seen in the past two decades in most OECD countries (OECD, 2007b).

The Netherlands appears to be one of the few exceptions to the general trend due to a relatively strong increase in the supply of skilled labor, which has largely neutralized the effects mentioned previously and did not result in wage inequality during recent decades (CPB, 2007). There is some variation in studies ranking countries based on wage inequality, but the Netherlands are generally viewed as having a relatively egalitarian distribution and only a slight increase of inequality (Förster and Mira d’Ercole, 2005; Burniaux et al., 2006). However, recently this picture has changed due to a reduced supply of skilled labor which is likely to raise the skill premium and inequality again. In terms of demographics, the West has a growing older population (≥65 years), while the population in the age categories 0-14 and 16-64 years are declining. This development, combined with the reduced supply of skilled labor and an increasing demand for highly skilled employees, will make global sourcing almost a prerequisite for firms to compete for talent on a globalizing market place.

Global sourcing has more to do with the availability of highly skilled employees and management, implying that countries’ competitiveness is founded on the labor market to a considerable extent (van Gorp and van Welsum, 2012). The effects of it will not be the same for all countries. Global sourcing has an impact on domestic skill intensity i.e. the relocation of activities to low-income countries increases the domestic skill level in relative terms, whereas this relocation to high-income countries may result in skill downgrading. The flexibility of the labor market will be a differentiating factor in responding to challenges posed by global sourcing (Werner, 2009). Different objectives or motivations for global sourcing may result in different effects on employment and these may be shaped by labor market rigidities, especially so in Western Europe (Neureiter and Nunnenkamp, 2010). This implies that economies with a more flexible job market are in the end better positioned to benefit from global sourcing than countries with a rigid labor market, weak regional and sectoral mobility of workers, low mobility between professions and limited opportunities for re-employment, as is the case in for example the European Union (Stare and Rubalcaba, 2009).
Governments in the West should enhance the flexibility of their labor market as this is crucial to increasing the benefits from global sourcing. Furthermore, governments should focus on creating an adequately skilled labor force. At the same time, it is important to closely monitor the developments in global sourcing by firms in order to create and exploit comparative advantages, attract foreign direct investments, and increase trade in services.

**Myth 6: We do the thinking, they do the work.**

*Arte perire sua*

*Becoming a victim of your own creation*

The Roman Empire was so mighty that its citizens and leaders became complacent and arrogant. It never imagined that other parts of the world would compete with its superiority, let alone that their empire would ever decline.

Unfortunately, some are still of the belief that developed countries have a monopoly on innovation, carrying out high-skilled and high value-added activities, while other countries have no choice but to specialize in the lower-skill, lower-cost, and lower value-added labor intensive activities. Many developing countries were and indeed still are competing on cost and especially low wages. However, more recently they have started to also compete on highly skilled labor and innovation. In fact global sourcing and innovation can go hand in hand, and may go in both directions. For example, today ‘the thinking’ may be accomplished in India while ‘the delivery’ is accomplished in the Netherlands. ‘Made in China’ can, and sometimes already has become ‘Made by China’. Knowledge transfer in different sectors can lead to the creation of knowledge hubs and long term bilateral cooperation between developing and developed countries. Countries could stimulate this development by way of economic diplomacy targeted at a bundling of knowledge about international business (SER, 2011). A topic I shall return to later in my lecture.

*Countries move up the value chain*

Just as firms do, countries move up the value chain as well.
“... it is not just the firms that move up the value chain for example by introducing more innovation into their global sourcing, countries do the same.”7

The World Economic Forum’s Global Competitiveness Report (GCR, 2010-11) classifies countries and economies in three stages based on their current level of development. The first stage is referred to as the factor driven stage, where countries compete based on their factor endowments such as unskilled labor and natural resources. In this stage, the countries perform basic economic activities such as primitive farming and mining natural resources. Therefore, the export of raw materials is a major contributor to GDP. As countries evolve, they move up the value chain by acquiring the skills to process the raw materials. This stage is referred to as the efficiency-driven stage in which countries strive to enhance efficiency and product quality. In order to achieve this objective, nations will invest in the development of the industrial sector, which will lead to the economic growth of the country. The growth of the industrial sector contributes to increased wages, in turn stimulating domestic demand for products and services. Therefore, the export of finished products, import of industrial equipment, and domestic consumption of finished products contributes to GDP. Lastly, countries evolve to compete with new and unique products and services using the most sophisticated production processes and innovation. This stage is referred to as the innovation-driven stage, where innovation is the key driver of the economy. According to the GCR 2010–2011, countries in the West are classified as innovation-driven economies that have a relatively high GDP per capita income.

Globalization has resulted in interdependencies between countries and economies with the dynamics, the complexity of society and economic life impacting the effectiveness of government performance. The role and influence of Western governments is undergoing major changes (SER, 2011). The shift of power that is currently taking place from the West to the East (referring especially to countries such as India and China) is not necessarily a zero sum game (Denis et al., 2006). However, the comparative advantages are expected to change more quickly in emerging economies than for example in the West, where countries have advanced innovation-

driven economies. Emerging economies are moving up the value chain and specialize in more knowledge and human capital-intensive products and services. This brings them into direct competition with the advanced economies and results in the rise of service and knowledge-intensive industries that are playing an increasingly important role in the international marketplace (OECD, 2011). It has triggered several countries in the West to initiate protective measures as they see this as a zero sum game in the race for comparative advantages with the East. However, instead of fearing a powerful economic force and requesting protective measures, I argue that it is more advantageous to join forces and jointly explore opportunities to create comparative advantages between countries while quoting the OECD’s secretary general who was citing a new study of the International Collaborative Initiative on Trade and Employment (ICITE) comprising ten international organizations in May this year”8:

“Governments that foster open markets and resist protectionism have the best chance of stimulating inclusive economic growth and creating high-value jobs.”

Furthermore, in order to stay competitive, countries need to constantly review their comparative advantages and take action to maintain or improve their attractiveness to firms. Comparative advantages will, in addition to a flexible labor market, be determined by countries that know how to attract investments and introduce clean technologies with special attention to sustainable production processes. This is in support of the development at the turn of the last century, where we went from cost to knowledge arbitrage and whereby firms and countries alike moved up the value chain (OECD, 2007c).

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8 The study report, named "Policy Priorities for International Trade and Jobs", was launched by OECD Secretary General Angel Gurria during the annual OECD Forum held on May 22-24, 2012.
The impact of global sourcing on citizens

Myth 7: Global sourcing for citizens is just about job losses

Navigare necesse est, vivere non est necesse
Sailing is necessary, life is not; Through action, man can live

Rather than clinging on to the fear of the negative effects of global sourcing, governments, businesses and citizens would be better joining forces to mitigate these effects and focus on the opportunities for creating sustainable value chains across the globe.

As I have elaborated on earlier, the impact of global sourcing on society at large is much greater than just through job losses in the West. The West is still a big receiver of global sourcing activities and there are more advantages attached to it that are seldom touched upon in the media. For example the local business community can become more competitive and firms may be able to expand their market share, profits and capital spending. This results in job creation in their home countries. In addition to new job opportunities it may also lead to cheaper and better quality products and services for citizens as consumers. In fact, consumers become the new service providers of the future through a form of crowdsourcing, as I will further elaborate upon in the next section. Moreover, citizens are important watch-dogs of governments and firms alike, monitoring their responsibility to create for example a clean and secure working environment and equal distribution of wealth for citizens in a global marketplace. Citizens also in their role as consumers should not underestimate their own role in mitigating the negative effects of the birth of global value chains.

“Our simplest decisions as consumers affect the living standard of people in distant nations who are involved in the production of products we use.
Our daily lives put pressure on the global environment. It is irresponsible to bury our heads in the sand, ignoring the many ways in which we will influence, every day, the lives of distant people.”

It is time for the citizens of the world to engage themselves by facing and responding to the global problems representing the negative side of globalization such as stark income disparities, and victimisation of the poor and the immigrant, which still exist according to the French author and diplomat Stéphane Hessel (2011). He calls for a true social and economic democracy and a revival of values as a response to what in his view is the shocking spread of ethnic prejudice among nations that were once proud carriers of humanism:

“We need these principles and values more than ever today. It is up to us, to all of us together, to ensure that our society remains one to be proud of: not this society of undocumented workers and deportations, of being suspicious of immigrants; not this society where our retirement pensions and other gains in social security are being called into question…”

Consumers are the new service providers of the future

New developments in global sourcing, and specifically outsourcing, take place and are inviting us to think more expansively about the concept. This is, among others, due to the role of technology in automating, and either making redundant an erstwhile outsourced activity or performing the activity in-house may partially replace the more traditional view that outsourcing is a Business to Business (B2B) concept (Varadarajan, 2009).

A more expansive view is that outsourcing can also be done to entities other than a firm’s suppliers. This will lead to more insourcing and cause a shift from B2B to micro-outsourcing. This refers to the development that device-enabled self-service technology makes it possible to outsource some activities to customers. Together with customers, the co-production of a service or a product takes place. This co-creation is a form of crowd sourcing along the line of thinking that any skilled person anywhere in the world can be a source of competence and can contribute to offering advice or new concepts, evaluate existing products or acquire new customers. This

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shift from B2B to new external entities such as end-use customers also causes a shift from a formal, contractual approach to non-formal means of compensation for service delivery. Examples of this type of outsourcing are the airlines who outsource to travelers via on-line check in systems, where travelers print their boarding passes from home; grocery stores outsource the scanning of products to their customers; automobile dealers outsource to their customers by scheduling on-line repair and maintenance services for their cars; and Lego realized a factory with free downloadable software to design one’s own toy and then order it. This initiative together with other open innovation-related activities resulted in the rebirth of Lego after its having been close to bankruptcy.
THE FALL OF THE ROMAN EMPIRE

REALITY OR MYTH?
Conclusions

By elaborating on my seven myths, I have discussed the impact of global sourcing on countries, businesses and citizens. I would now like to conclude by returning to the cause of the fall of the Roman Empire and the lessons we can draw from that, and look at the future of global sourcing linked to my research and teaching in the years ahead.

The fall of the Roman Empire was not caused by outsourcing

_Nihil sub sole novum_
_Nothing new under the sun_

If we project history onto our current situation, not much has actually changed. Whereas Gibbon in his analysis blamed Christianity for failing to bring the much needed norms and values for the Roman Empire to survive, we still do not have them in a secular society where we can only blame ourselves and our (lack of) contribution to making value chains sustainable for all stakeholders involved. We should look at our different roles in society as citizens, educators, consumers and gatekeepers of the government and the business community to jointly take our responsibility in this matter.

I argue that it is not global sourcing but complacency that led to the fall of the Roman Empire. It is the risk faced by any nation that has climbed up the value chain and considers itself mighty and untouchable. It invites a nation and its citizens alike to become complacent. Complacency is in my view the soporific of ancient and modern times. It makes businesses, governments and citizens close their eyes to challenges happening around them, resulting in a lack of, or too late a response from their side. Countries and firms see moving up the value chain as the holy grail of economic development. It can only be sustainable though, if governments, businesses
and citizens alike open their eyes to the greater responsibility, as is currently the case.

**Asparagus: The king of the Roman Empire**

Romans are believed to have been the first to cultivate asparagus, and recipes are included in the oldest known cookbook. Sparrow Grass, known today as asparagus, was so sought after that the Roman emperor commanded fleets of harvesters to search the entire empire for the best asparagus spears and bring them back to Rome. After the fall of the Roman Empire, asparagus were cultivated in monastery gardens, along with medicinal herbs. And importantly it “is one of the few foods you can eat with your hands in front of company — even if you are wearing a toga”.

Just as the Romans were unwilling to take on some of the jobs that would result in a tougher life for them, in this day and age we also have jobs that can only be filled by attracting labor from foreign countries. The harvest of asparagus in the Netherlands is a good example of a sector in which we bring in foreigners to do our jobs due to the unavailability of labor on the local market. The king of the vegetables has apparently lost its glory when it comes to the willingness of the local population to participate in its harvest. We bring a labor force in mostly from Poland for seasonal farm jobs. Since the early 1980s, the bulb-growing industry did the same by employing Poles. In 1990, their employment generated quite some controversy when the Employment Service threatened to stop unemployment insurance payments for unemployed Dutch workers if they did not accept seasonal farm jobs. Earlier this year, the local government of Rotterdam organized a bus tour for the unemployed to meet with employers in the horticultural sector aiming to employ them in that sector. Failure to participate in the bus tour could result in a reduction or a stop of unemployment benefit payments by the government. The motivation of those unemployed individuals of Dutch nationality was low, as illustrated by this anecdote: one of the participants, who during the bus tour was already thinking about his way out as he approached the owner of one of the greenhouses and asked if one can develop an allergy to hyacinths?

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11 http://www.nadiafrigeri.com/articles/article1/article1.htm
12 http://www.walkaboutmag.com/21unclepaul.html
13 http://nieuwsuur.nl/onderwerp/376379-elf-werklozen-aan-de-slag.html
At the same time, citizens in the West are clinging to their rights to, for example, relatively young retirement ages compared to their life expectancy, and social security rights. In the Netherlands, after much debate, we recently finally succeeded in increasing our retirement age by two years to 67; while France’s current government, much to the regret of the European Commission, is doing the opposite by bringing the retirement age back from 62 to 60 years. These rights regarding social security and retirement ages should come with a responsibility, in order to make them sustainable in the long run. This is needed in view of a growing elderly population, the relatively low percentage of women working in jobs of more than 24 hours within the Netherlands, and too small a labor force to fill all the vacancies on the labor market. A scarcity of resources, among others, due to the demographics and a rigid labor market in the West, leaves us dependent on global sourcing and inviting in foreign talent. We should therefore embrace the immigration of highly skilled foreign talent because the Netherlands and other EU-countries continue to hold comparative advantages regarding high skilled activities (Denis et al., 2006). With the fragmentation of the value chain and the increased links between countries through trade and investment, there is a need for a joint effort to reach economic development and to maintain the high living standards currently enjoyed by the West.

**Credibility of leadership is key for global sourcing**

Novus ordo seclorum

A new world order

We are in need of a new generation of leaders who set the example for the rest of the world and inspire people to create sustainable global value chains.

One of the key requirements for successful outsourcing by governments is the credibility of the political leadership (Koury and Whilborg, 2005). If a government does not take its responsibility to close the gap between the haves and the have-nots by securing, for example, fair wages of workers above the poverty level and a safe and clean working environment, it will be hard to gain that credibility. By moving up the value chain, countries and
firms face a competitive landscape in which they need to respond to higher requirements for regulations and standards for instance regarding working conditions and the protection of intellectual property. However, some of the superpowers and their multinational firms, just like the Roman Empire, do not take the responsibility that comes with their position, having climbed up the value chain and holding a strong economic position on the global playing field. Instead of lowering the gap between the rich and the poor, they are actually enlarging it, or at least failing to take action to lower that gap and ensure a sustainable global value chain.

**Astérix and Obélix take on Caesar**

It is 50 B.C. and Caesar is ruling the world, except for one little Gallic village that refuses to yield to Roman occupation. It is the village of Astérix and Obélix. Both great warriors of Gaul, today’s France, fighting the mighty Romans. A special magic potion, prepared by the village druid, gave incredible power to those who drank it. Obélix, who fell into the cauldron as a child has been invincible ever since. Should we wait to discover a magic potion that will make of our newly elected Prime Minister a combination of a super-strong Obélix and a shrewd Astérix in order to become less dependent on the EU and survive as a tiny country in a big world? Or should we rely more on joining forces with our European neighbors, and perhaps even tighten our EU-strings by outsourcing more of our policy and embracing an open culture allowing us to invite in highly talented young people?

If we look at the current debate on outsourcing more of our monetary policy in the EU by establishing a banking union at a European level, it all starts with building credibility of leadership. Moreover, the difference between the economic rise of the West or its decline will in essence depend upon the credibility of leadership. This is quite a heavy responsibility for our political leaders in the EU and especially for our new emperor, Angela Merkel. In fact it is not just down to the governments. They should join forces with the business community and citizens around the world to take up that leadership. All these different stakeholders should serve as each other’s gate keepers in making it a joint effort to deal in a responsible way with the scarcity of resources in the global value chain. This includes closing the gap between the rich and the poor. If we are not taking up our
responsibility in the value chain to make this world a better place out of idealism, then we should perhaps do it out of pragmatism, in order to keep our position on the global market.

If we take a glance at the Netherlands, that is what the Dutch are good at: pragmatism. About a year ago the Grachtenhuis, a small museum in Amsterdam, opened telling us in a compelling manner about the history of our capital starting in 1597 when Amsterdam was the fastest growing metropolis with its 60,000 inhabitants and a daily inflow of immigrants. The city of Amsterdam was not built based on the tolerance and appetite for multiculturalism that we like to pride ourselves on. It was pure pragmatism that made Amsterdam flourish by letting in foreigners at the turn of the 17th century who contributed to its glorious economic situation. Whether it is idealism or pragmatism that prevails, in both scenarios an open culture is key. An open culture provides a much better response to the challenges that global sourcing present to us, for example regarding building a sufficient and talented labor force, than protectionism and a closed culture can ever be.

“A closed culture that has lost its inherent vitality can tolerate no more than a trickle of immigration. Such a culture is incapable of incorporating new arrivals into its social fabric. An open, living culture, in contrast, can take in immigrants in great numbers.”

There is another reason why an open culture is important. This is because we live in a world where we all become more dependent upon each other across geography, religion, language and nationality. Mitigating the negative effects of global sourcing, such as poor labor standards or forced labor, can only happen if people once distant cooperate in ways they have not before.

“We can not understand where even a simple soft drink comes from without thinking about lives in other nations. When we do so it makes sense to ask about the working conditions of these people, their education, their labor relations. And when we ask such questions we need to think about our responsibility to these people. How has the international network of which we consumers are a crucial part shape their labor conditions?”

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What opportunities do they have? Should we agree to be part of the causal network that produces their situation, or should we demand changes? How might we promote a decent living standard for those outside our borders who produce what we need—just as we usually feel ourselves committed to doing for workers within our borders?15

Education can and should play an important role in explaining to young people how these global value chains work, and what the role of the next generation can be in making them sustainable. Educational institutes, and especially business schools, lay at the fundaments of creating responsible leaders. This is why of the three Nyenrode pillars of entrepreneurship, leadership and stewardship, the latter is so important and is making all the difference for the future generation of business leaders. It goes back to Nyenrode’s roots of not being just another business school and preparing a new generation of responsible business leaders. This pillar can become even stronger than it currently is following the educational visions of two historic important educators: Tagore and Dewey. Experiential learning is in their educational philosophy an important tool for educating responsible leaders. It is an educational approach that triggers all aspects of human experience, including knowledge, skills, feelings and taken-for-granted assumptions. Key in this approach is bringing the theory into practice and bringing the practical experience again back into the classroom to review existing theory. Tagore is the Indian Nobel prize winner for literature, writer, playwright, songwriter, poet, philosopher and an educator with social-political force. He founded a school which later became a university to form responsible citizens based on a new world culture founded in multi-culturalism, diversity and tolerance. Dewey, the American philosopher, psychologist and educational reformer, valued global citizenship by teaching even very young children about the processes that produced the things they were using every day. For example they would learn from where the materials of products came, how they were made, and what chain of labor and exchange led to the products.

Nyenrode is working on a strategic approach to further embed experiential learning in the different curricula of its programs. It demands much more from the teacher and the students in terms of the level of understanding.

15 Martha Nussbaum (2010). Not for profit: Why democracy needs the humanities, p. 82.
and interaction, as none of them can hide behind books. In my courses, I use tools for implementing experiential learning in my teaching, such as real time company projects and role plays. The latter is especially useful in challenging students to step outside their own point of view and inhabit that of other stakeholders in the global value chain. This is not always easy, and as I said, much more demanding, also with regard to the preparation and the execution of your course. It may therefore not always work with every audience, especially not with those leaning back in their comfortable chairs, too busy with their tablets and smart phones and expecting a lecture with as little interaction as possible, and certainly not defending opinions that may be not even their own. However, when it works, it works! And luckily that is the case for the majority of my courses. I have seen a Kenyan student, present here today, becoming an Indian statesman, and you would have voted for him in any election. I have seen relatively right wing students as forceful labor union and anti-globalist activists, actively campaigning for protectionist measures against global sourcing. I am convinced that this way of working at the nexus of practice, policy and research is one of the most powerful ways to educate students. I am looking forward to further developing this as a Chair in International Business Strategy to the benefit of the Nyenrode community.

A sustainable global value chain is a joint responsibility

Concordia civitas facta erat

During the Roman Empire society was based on shared principles that made law

“Interdependence requires a shared responsibility for a common and global living.”16

As first referred to in the introductory part of my lecture, as a result of the growing importance of global value chains, firms have developed closer relations with third parties thus blurring the boundaries between them. This growing interdependency raises an important question: where does the firms’ responsibility for products and services delivered by third parties start, and where does it end? To what extent does it increase their responsibility for a sustainable value chain while using their network of

third parties, from whom they source products and services and have business relationships with on a global scale?

The sustainable global value chain is an emergent concept for the field of International Business (Cruz and Boehe, 2008). A concept that is clearly in development with emerging insights regarding the firm’s global responsibilities and especially achieving suppliers’ compliance across the value chain (Boyd et al., 2007). Therefore, global sourcing is likely to present challenges to business for many decades (Doh, 2005). Several firms have been scrutinized in the media, and accused of not taking up their responsibility in the value chain. For example Nike was publicly questioned about its operations in Indonesia. Nike’s first defense was that its contractors were independent third parties following their own management and national regulations, and that it had no control in its arm’s length relationship with them. Apple and Dell have been under fire because of their relationship with their third party, Foxconn, regarding adverse labor conditions. Nintendo has been accused of doing too little to ban conflict minerals from its value chain as important materials for its electronic products. Conflict minerals are those materials sourced in conditions of armed conflict and human rights abuse, such as is the case in Congo. The sale of these materials has contributed to the funding of armed groups that in some cases have been involved in millions of deaths (Epstein and Yuthas, 2011).

It is no longer acceptable to a larger and more vocal number of stakeholders present all along the value chain that firms take no, or insufficient, responsibility for the third parties that they engage with for the production of their products and services (Robertson et al., 2010). There are various initiatives in the business community that underline the responsibility of firms on the global playing field where governments and business community meet and where firms are connected to the broader social construct. I will elaborate in the next section on one example: The PUMA case.

An Individual firm setting the example: The PUMA case

PUMA is an example of a firm that takes full responsibility for its role, and of its third parties in realizing a sustainable global value chain. PUMA does
so by acknowledging the levels and types of risks related to each country where PUMA’s materials and goods are sourced and produced. It works on stakeholder engagement and partnership building at the local, regional and global levels to identify and act on challenges and solutions as a response to a variety of risks and issues in the value chain. In order to have its third parties comply with PUMA’s code of conduct, the firm implemented an approach to address issues of non-compliance by capacity building projects at key points in its value chain, in the areas of labor, human rights, health and safety and community development. It has its own handbook for social standards that reflects the requirements for third parties to partner with PUMA.

The firm has a separate department and program, PUMA Safe\(^\text{17}\), dealing with humanity and ecology issues within the value chain and beyond. PUMA Safe is, in effect, a social and environmental compliance program for third parties covering issues such as minimum working hours, basic wage, respect, equality and restriction of forced labor. It includes a factory compliance monitoring system and engages for example with all third parties to ensure the socially responsible production of PUMA products; enhances a proper implementation of the Restricted Substance List\(^\text{18}\) amongst all third parties; collects and interprets environmental key performance indicators; initiates capacity building programs on third party level; and improves energy and water efficiency and waste management. PUMA’s ecology efforts are in fact the main driver for the Global Reporting Initiative\(^\text{19}\) (GRI) and the sustainability reports on third party level. This GRI provides a framework for reporting on sustainability.

In order to ensure that the firm’s social health, safety and environmental standards are observed at the factories of third parties, and contracted directly by PUMA and its subsidiaries and licensees, it has an audit process in place, and information provided by factories is validated. Depending on the situation, announced and unannounced visits to the factories take place,

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\(^{18}\) This list includes 59 categories of restricted substances involving more than 1000 substances. These hazardous substances have specific restrictions, and as such certain chemical substances in the specific product are not allowed to be used, so as to avoid any unnecessary testing. Typical hazardous substances that are restricted in products include lead, AZO dyes, DMF, PAHs, Phthalates, PFOS, the nickel release and so on.

\(^{19}\) Since 1999, the Global Reporting Initiative GRI provides a framework for reporting on sustainability that is referred to as the sustainability Reporting Framework. It has become an important standard for sustainability reporting and is widely used around the world. Stakeholders providing input to the framework include business, civil society, labour, accounting, investors, academics, governments and sustainability reporting practitioners.
which include interviews with employees, checking their accommodation and reviewing their working hours. In PUMA’s manufacturing agreements, every factory is obligated to be audited for compliance with all PUMA standards and national and local laws. If the latter do not exist or are milder compared to international standards, the firm interacts with all stakeholders to discuss policies and actions to address the issue. Failure or negligence of third parties to provide the requested information may result in commercial penalties.

In its efforts to create a sustainable global value chain, PUMA has its own code of conduct and adheres to standards beyond the firm’s boundaries at three different levels: local; industry; and international. I will further elaborate on these three different levels in the sections below.

Local standards

PUMA is an active member and supporter of the German Sustainability Code\(^20\). This is a resolution passed by the German Council for Sustainable Development with the aim of making the sustainability efforts of firms visible and comparable so providing a broader basis for the realization of sustainability. Another example of standards set by local governments is the Transparency in the Supply Chain Act Disclosure Statement. This law, approved in 2010 by the government of California, requires retailers and manufacturers operating in the state to publicly announce the steps they have undertaken to eradicate slavery and human trafficking from their value chain.

Industry standards

Apart from PUMA’s own firm initiatives, it indeed also works with its peers locally, regionally and globally in initiatives such as the Sustainable Apparel Coalition, contributing to environmental sustainability while mitigating social risks. PUMA works for example together with Adidas, C&A, G-Star, H&M, Li Ning and Nike on implementing a roadmap towards the zero discharge of hazardous chemicals in the supply chain by 2020. The ultimate

\(^{20}\) http://www.nachhaltigkeitsrat.de/en/
goal of this initiative is to set a new standard of environmental performance for the global apparel and footwear industry.

Similar initiatives for enhancing a sustainable global value chain have been implemented in other industries. The Fair Wear Foundation, for example, carries as its mission a pledge to improve labor conditions in the garment industry by working closely with firms that produce clothing and other sewn products. Taking responsibility for the ethical sourcing of products has become a key issue in the fashion retailing industry since the production of garments has moved increasingly offshore (Goworek, 2011). With the increasing demands from consumers for products made in conditions which respect workers’ rights, it has become an industry that retailers such as People Tree tap into by selling fair trade clothing from developing countries.

**International standards**

In addition to the sort of monitoring demonstrated by PUMA, factories are also subjected to independent external monitoring by the Fair Labor Association. This is a joint initiative of firms, colleges and universities and civil society organizations to improve working conditions in factories around the world by implementing a Workplace Code of Conduct\(^2\). All factory visits by this association are unannounced. Firms forming part of this Association are invited on a voluntary basis to achieve international labor standards in factories manufacturing their products and is, in fact, a brand accountability system.

Furthermore, PUMA supports the Better Work Programs initiated by the International Labour Organization in partnership with the International Finance Corporation of the World Bank Group. It brings together governments, employers, workers and international buyers aiming to improve labor practices and competitiveness in global supply chains in order to improve compliance with labor standards. The programs currently runs in the garment sector in the following seven countries: Cambodia, Haiti, Indonesia, Jordan, Lesotho, Nicaragua and Vietnam. Within the program assessment, advisory and training services are provided measuring

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\(^2\) This code of conduct is based on the standards of the International Labour Organization and creates a practical monitoring and verification process to achieve those standards.
compliance with national and international labor standards. Each country program generates public compliance synthesis reports focusing on non-compliance issues from participating factories.

Other international standards important to enhancing a sustainable global value chain are the OECD Guidelines for Multinational Enterprises, which were updated in 2011. Since the update, they include a new approach to due diligence and responsible supply chain management by focusing on issues such as employment and industrial relations, combating bribery, the environment, consumer interest and a pro-active implementation agenda to assist firms in meeting their responsibilities as new challenges arise (OECD, 2011). These OECD Guidelines encourage firms to participate in private or multi-stakeholder initiatives and social dialogues regarding responsible supply chain management, and provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The OECD guidelines seek to specifically mitigate an adverse impact directly linked to a third party’s operations, products or services due to the blurring of the boundaries between firms and their third parties. It calls for responsible supply chain management by encouraging third parties to apply the principles of responsible business conduct in line with the guidelines. Firms can use management contracts and pre-qualification requirements to influence their third parties. It is clear that there are limitations to firms’ abilities to effect change in the behavior of their third parties, due to the complexity of the supply chain, and the market position of the firms toward their third parties. The tools that firms may employ in responding to the eventual adverse impact of their business relationship include risk mitigation efforts or, if this fails, temporary suspension or even disengagement of the relationship with the third party. In addition to the OECD guidelines for responsible supply chain management, there are the United Nations Universal Declaration of Human Rights and ILO conventions that include some elementary rights such as no forced labor, safe and healthy working environments, guaranteed payment of wages, no child labor and no excessive working hours.
All these international, industry and local standards and corporate codes of conduct are vital to mitigate some of the most important concerns raised on global sourcing. They are very much needed, but perhaps not sufficient.

**From non-binding to binding and a global reach**

*Quis custodiet ipsos custodes*  
*Who observes the observers?*

Corporate, local, national and international initiatives regarding sustainable global value chains, especially when they can be enforced, are vital to mitigate the negative effects of a global value chain. However, they are not sufficient. To have other firms follow the good example set by companies such as PUMA, citizens, especially in their role as consumers, are by far the most powerful tool. They can, in fact, put pressure on these firms to take action in making their global value chains sustainable.

What is true for the credibility of political leaders applies to the world of business as well. The PUMA case shows what the leadership of a CEO can and should do to help a firm mitigate the negative effects of global sourcing and to take responsibility for a sustainable global value chain. What today are the exceptions, should be the rule for tomorrow. This development should be supported by international standards that currently are mostly non-binding (e.g. OECD guidelines) and with limited reach (e.g. Better Work Program). These programs should in the future be binding and have a global reach to be more effective and to avoid competitive disadvantages for those firms that are applying them compared to those who are not. More than is currently the case, all stakeholders involved should be held accountable for their role in realizing a sustainable value chain.

There are different initiatives taken to report on sustainability in the value chain. The aforementioned Global Reporting Initiative is a good example. So is the framework for central reporting on which the World Business Council for Sustainable Development is working in order to accelerate sustainability. This framework prevents firms from reaping the benefits from low costs arbitrage without paying for the externalities such as the pollution that takes place in a global value chain. It forces us to look at the true value by monetizing sustainability. In doing so, this reporting
framework redefines our performance and tags new valuations to our actions. The ultimate goal of this initiative is that by 2020 firms will report externalities based on rule-based accounting principles. Or as the president of the World Business Council for Sustainable Development, Peter Bakker, states: “Accountants will save the world”. In this respect I think it is important that we not only monetize the negative effects of the global value chain but also include the positive effects such as job creation and other ways of contributing to the welfare of the local population.

**Inclusive economic growth says it all: The revival of economic diplomacy**

_**Don’t shoot the messenger**_

The phrase ‘don’t shoot the messenger’ stems from the dangers of being a diplomat in the Roman period. A slip of the tongue could be enough to lead to the messenger being killed, and his head sent back to the foreign government he was representing. The use of the word diplomacy can only be traced back as far as the late eighteenth century, while Legatus is the Latin word for diplomat. However, there was at the time no single term that referred to all the different tasks carried out by diplomats varying from statecraft to negotiations and foreign policy. In this day and age, the tasks of diplomats seem only to have increased and shifted in focus. Economic development is an important carrier for developing countries and people, while mitigating the negative effects of globalization has become a dominant part of diplomacy.

It is not development aid that is decisive in our battle against global challenges such as hunger and poverty, and closing the gap between the rich and the poor. Trade and investment relations have a much bigger impact on economic development and have considerably contributed to it (SER, 2011; OECD, 2011). The Dutch Academic Council for Government Policy argues that development aid has been focused too long on living conditions and too little attention was paid to developing countries and people (WRR, 2010). Furthermore, according to the Economic Social
Council, the Dutch government should enhance sustainable globalization and sustainable growth in business, amongst others through the countries in which production for our firms takes place (SER, 2008 and 2011). Sustainable growth is about development in which social and ecological interests are weighed in a balanced manner. It focuses on growth in an inclusive manner, in the sense that it includes taking responsibility for others in order to have more people and countries profit from it.

To achieve this ambitious goal takes an inclusive view on economic development and responding to the global challenges, also those emerging from global sourcing. It can only work if public and private stakeholders cooperate to face these challenges and jointly develop solutions. This supports the belief in the development that society has become more business relevant and business should play a bigger role in society.

It is where government and business community meet, and where firms are connected to the broader social construction. It is where the world of international business meets the world of diplomacy: a field of research which is referred to as economic diplomacy, which recently has been undergoing a revival due to the rise of a group of countries referred to as BRIICS (Brazil, Russia, India, Indonesia, China, and South Africa) (van Bergeijk, 2012). The reason being that the government plays an important role in paving the way for doing business on these markets. They can, for example, open doors that would otherwise remain closed for firms. Economic diplomacy is focused on using the influence of government and its network to enhance international trade and investments by opening international markets for the business community.

**At the nexus of economic diplomacy and global value chains**

There is relatively little academic research on economic diplomacy looked at from the perspective of global value chains (van Bergeijk, 2012). It is my intention to further explore this particular field of research. It will also be leading in my teaching efforts that include courses on both global sourcing and international business and diplomacy. I so enjoy teaching this and linking both areas of expertise as it opens the eyes of young people for the challenges that global sourcing and other variations on globalization are posing us. It also makes them think about their own roles and of the firms
they will be associated with in joining forces with governments and citizens around the world to develop and implement solutions for the challenges that lay ahead of us. And it is by teaching my students that I will learn again. Teaching and research are my *perpetuum mobile* of learning.
Final words of appreciation

Acta est fabula
The story comes to a close

These days there is no need to shoot the messenger as the Romans did. It is, however, time to silence her after taking almost 45 minutes of your precious time to listen to her. Please allow me, before I indulge in silence, to express a few words of appreciation to those who played a vital role in delivering my inaugural lecture at this institute today.

Prof. dr. Pieter Klaas Jagersma, my PhD supervisor, who opened my intellectual windows in many directions and challenged and supported me in my academic efforts. Pieter you basically formed me to the academic I am today. Keen on academic rigor, while embracing and valuing the business practice as an important fuel for my research and teaching.

Prof. dr. Willem Burggraaf, dean at the time of my nomination as a chair, and members of the Appointments Committee: Prof. dr. Jaap van Muijen, Prof. dr. Haico Ebbers, Prof. dr. René Tissen, Prof. dr. Peter van Bergeijk and Prof. dr. Lense Koopmans, I thank you for your statement of trust and approval in naming me as Chair in International Business Strategy. It inspires me to give my very best in fulfilling the professorship that is granted to me in an area of expertise that I am passionate about.

My colleagues in the discipline of International Business and Diplomacy and especially Prof. dr. Andrzej Hajdasinski who is equally afflicted by the infectious global sourcing disease, and with whom I can share my passion for this topic.

Frederiek van Lookeren, our many years of cooperation has brought me, apart from huge respect for you as a person and a professional, nothing but
joy. That many more years may come. Thank you for your effort in preparing for today’s event.

Wai Min Lee, the click between us was instant and I am glad that you came on board in time to work with me on many projects and be present here today. Your daily support in many ways has helped me a great deal in combining the many tasks here at Nyenrode while preparing my inaugural lecture for today.

Victoria Bressers, thank you for being such a great colleague; for your commitment to providing me with comments that sharpened my thinking.

Prof. dr. Venu Venugopal and Prof. dr. Ramnath Narayanswamy, throughout my academic career you have been a source of inspiration.

Peter Korsten, I much value you for your intellectual capacity and innovative thinking and above all for being a wonderful human being. We share a passion for our work that is rare to find.

Nadereh Chamlou, my intellectual collaborator on my research for the World Bank regarding global sourcing in the Middle East and North Africa. It has been a true pleasure to work with you in the past few years.

I would like to thank the companies I have worked with during the past year: Capgemini, Achmea, APG, Bavaria, CISCO, DSM, IBM, Infosys, Logica, McKinsey, MindTree, Microsoft, Philips, Rabobank, Schiphol, Sogeti, Springer, Tata Consultancy Services, TMF and the organizations: the World Business Council for Sustainable Development and The Sustainable Communities Foundation.

Since my appointment as professor in International Business Strategy on September 1, 2010, I have been engaged in different roles in the university, amongst others serving as Program Director of the International and Executive MBA, I would like to thank the MBA team, headed by Shaoqing Wang, for their great performance and making me proud to work with them.
Per 1 September 2011, I became Associate Dean of Degree Programs and have the pleasure of working with Prof. dr. Leen Paape and all program managers and program directors in the degree programs, in close cooperation with the marketing and career and personal development professionals. Many of them are present here today. Thank you for your commitment to our programs. It is working with people like you that makes Nyenrode a great place to work.

My dear students, thanks to you Nyenrode is a vibrant place. Your beat determines my rhythm, and I feel blessed to work with so many young talented people.

Sergio Gago, Sanjoy Roy, Jessica Haaster and Harsha Imrapur your generosity in helping me preparing today’s presentation and publication leaves me without words.

Prof. dr. Antoine Bodar, my dearest friend, where would I be without you? Thank you for supporting me in so many ways including sharing your knowledge for my lecture today.

Prof. dr. Peter van Bergeijk, you are embodying the *Homo universalis*. You are a well respected academic with a sharp mind and a talented graphic artist. I came to know you by walking along the academic road with you, then started to discover your work as an artist. It is an honor to have your exhibition *Derivates*, which is travelling to different academic institutions, at Nyenrode at the time of my inaugural lecture. Please, ladies and gentlemen, join me this afternoon in exploring the world of originality in the context of plagiarism and let Peter’s work surprise you with different views on the concept of originality.

Jan Louis, Eric, Inez, Valéry, Steven, Daniel, Camiel, Loek, Christianaan, Gijsbert, Johan, Louise, Bruna, Chazia, Mark, Jasmijn, Hans, Bas, Peter and Merel, thank you for being there for me in these past few months running up to today’s lecture.
My mother Catharina, I owe everything I am to you and my father. Your pureness, loving character and modesty strike and nourish me till this very day. Your presence here today is my biggest reward.

My dear guests, I so much appreciate your presence today.

With that, I have spoken. Ik heb gezegd.
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THE FALL OF THE ROMAN EMPIRE

REALITY OR MYTH?
Derivates

_Ars longa, vita brevis_
_Art lasts, life is short_

This travelling exhibition investigates the issue of originality in the context of (self) plagiarism. The difference in views taken by the Arts and in scientific discourse forms the point of departure, to discover how ideas that are identical can still be completely different and new, but also that ‘original’ works of art can be repetitive reproduction.

**Explore the frontier of originality**
Based on traditional printmaking techniques, such as blockprinting, engraving, mezzotint and lithography, Peeter Burgeik (1959) explores in his work the possibilities to comment on the increasing fleetingness of human existence. In the choice of his topics and in the creative processes Burgeik opposes the transitory icons of the Internet era. Both form and content require intensive and long-term vision and a direct contact with the matter allows for reflection and contemplation. Peeter’s efforts aim at combining Zen and the art of printmaking: http://www.peeter.nl.

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volunteers in 75 countries to enhance the dissemination of research in Economics and related sciences: http://plagiarism.repec.org/index.html.

The ideal of originality is a modern concept. Before the Romantic movement, copying the master as close as possible was the highest norm. The idea of plagiarism as a bad habit is a relatively new and ill-defined concept that even today has outspoken defenders:

“‘The kernel, the soul — let us go further and say the substance, the bulk, the actual and valuable material of all human utterances — is plagiarism’” (Jonathan Lethem, 2007)

The exhibition provides a mirror for scientists showing how the same idea can be valuable, different and new even if it only repeats what has been done earlier. The visitors can experience themselves that close copies are different and thereby develop a new perspective on originality and quality.
THE FALL OF THE ROMAN EMPIRE
MYTH OR REALITY?
prof. dr. désirée m. van gorp ll.m.