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KIBS, ORGANISATIONAL FORMS AND INTERNATIONALISATION: CHALLENGES TO POLICY

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KIBS growth and importance

Outsourcing and offshoring of KIBS: What is new?

Trends outsourcing and offshoring of KIBS

Emergent issues for policy

Source:

Miozzo, M. and Grimshaw, D. (2006) (eds.) Knowledge Intensive Business Services: Organisational Forms and National Institutions, Edward Elgar, Cheltenham, UK.

Massini, S. and Miozzo, M. (2009) Outsourcing and offshoring of business services: challenges to theory, management and geography of innovation, MIoIR working paper.

DEFINITION OF KIBS

Business services founded upon technical knowledge and/or professional knowledge (Miles 2001). Encompasses:

•social and institutional knowledge involved in traditional professional services (e.g. consulting, legal services); and

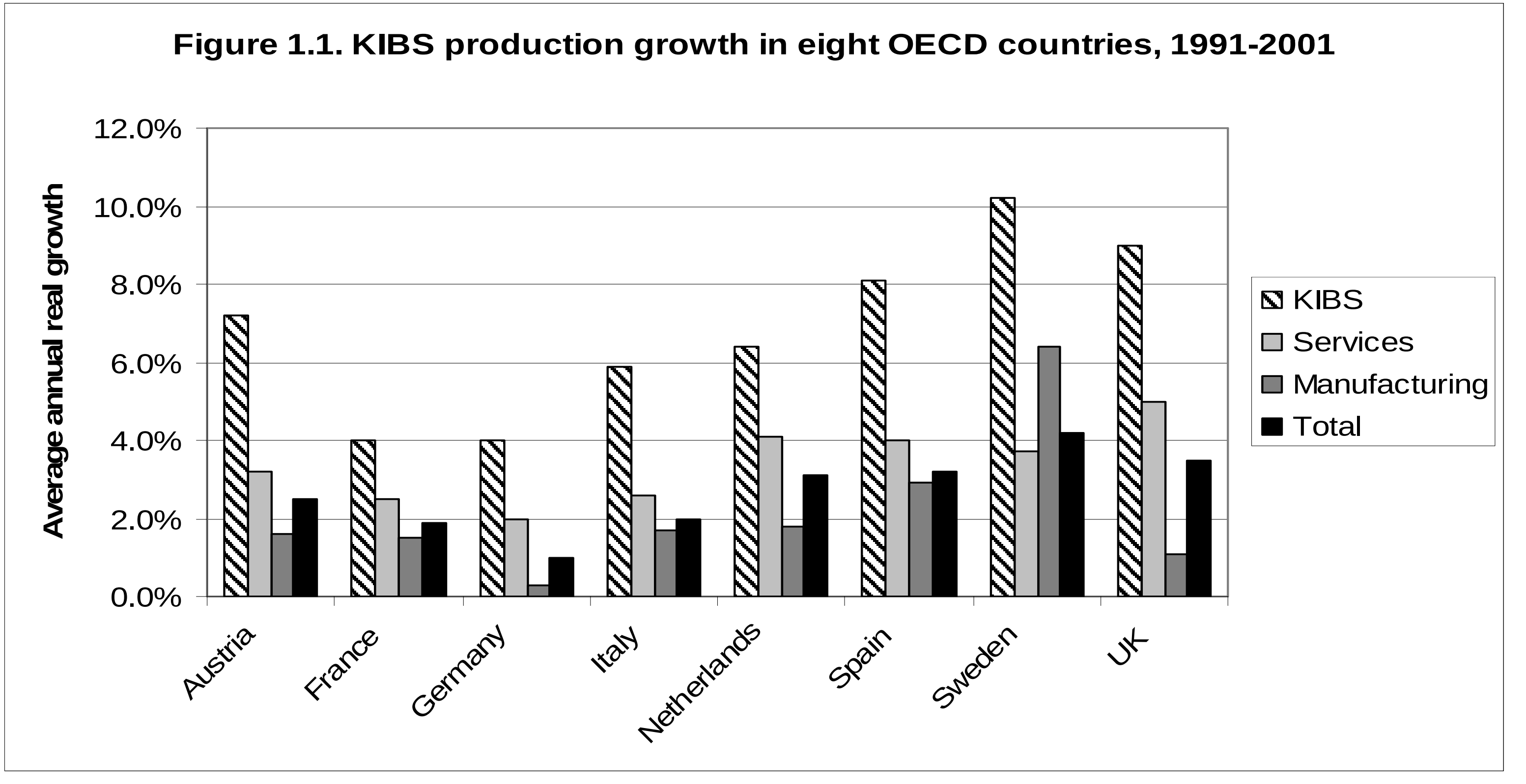
•emerging technological and technical knowledge in high tech services (e.g. computer services, R&D services)

Problem:

• Firms in some sectors difficult to classify (e.g. logistics services)

• Does not encompass KIBA

KIBS GROWTH



Note: KIBS is defined to include ISIC sectors 72 (computing and related), 73 (R&D) and 74 (other business activities). 1992-2001 data for Italy, 1995-1999 data for Spain, 1993-2001 data for Sweden and 1992-2000 data for the UK.
Source: (Miozzo and Grimshaw 2006 p.3)

IMPORTANCE OF KIBS

Important source of graduate job growth and value added (Community Innovation Survey)

Intermediate inputs across a range of sectors (Peneder et al. 2003)

Complex interaction with client organisations to facilitate transfer of knowledge (Antonelli 1999, Cagno and Meliciani 2005)

Embedded in physical products

Delivered through highly internationalised markets

Expansion through outsourcing (and offshoring) of services previously carried out in house

OUTSOURCING AND OFFSHORING OF KIBS

		Outsourcing	
		NO	YES
Offshoring	NO	1) Internal domestic provision	2) Domestic outsourcing
	YES	3) Captive/foreign subsidiary (international in-sourcing)	4) Offshore outsourcing

OUTSOURCING OF KIBS

Table 7.4 Linkages between internal management functions and markets for business services

Internal management function	Related market for business services
Administration	Management consultancy; legal services; auditing and accountancy
Human resources	Temporary work agencies; personnel recruitment; professional training.
Finance	Banking; insurance; renting and leasing
Production and technical function	Engineering and technical services; tests and quality control; R&D services; industrial design; maintenance and repair of equipment
Information systems	Software and IT services; telecommunications
Marketing and sales	Advertising; distributive trade; public relations; fairs and exhibitions; after-sales services
Transport and logistics	Logistics; transport services; express courier
Facility management	Security services; cleaning services; catering; environmental services/waste disposal; energy and water services; real estate (warehouses)

Source: Adapted from EC (2003: Annex 1, Box 1).

OUTSOURCING AND OFFSHORING OF KIBS: WHAT IS NEW?

Offshoring: not new, 1950s-70s multinationals driven by ‘locational advantages’ of the host economy

Outsourcing: more recent, linked to organisational changes and restructuring: 1980s flexible specialisation, 1990s delayering and downsizing

Contemporary outsourcing/offshoring: new wave, movement of white collar occupations to LDCs, expanded to **KIBS** (also not new, e.g. internationalisation of R&D in 1990s)

OUTSOURCING AND OFFSHORING OF KIBS: WHAT IS NEW?

Less internationalised firms and SMEs going offshore too

Not for expanding activities to new markets but for cost saving

Relocation of existing activities (or functions) from the home country to low cost countries (not just Triad)

Offshored/outsourced activities not designed to serve the host country, but activities based on home country or other global operations

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OUTSOURCING & OFFSHORING OF KIBS: SAMPLE DESCRIPTION

	US	EU	Belgium	Germany	Netherlands	Scandinavia	Spain	UK
Companies offshoring	299	334	72	45	102	32	48	35
Implementations Offshore	1271	1258	219	192	453	71	205	118
Average Employment	27874	7793	636	53517	1945	3829	5209	16926
Median Employment	5000	400	120	13750	200	825	1800	283

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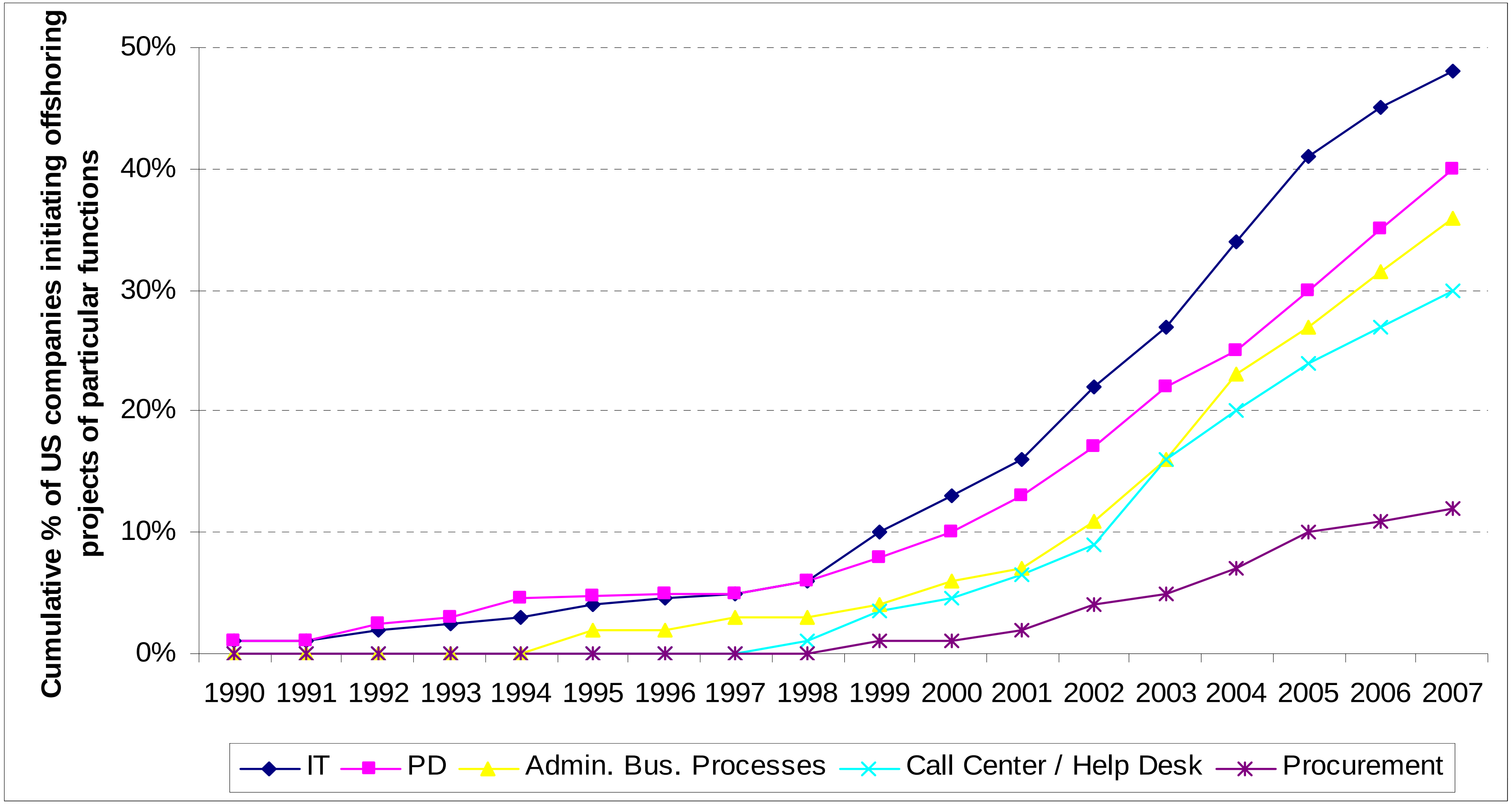
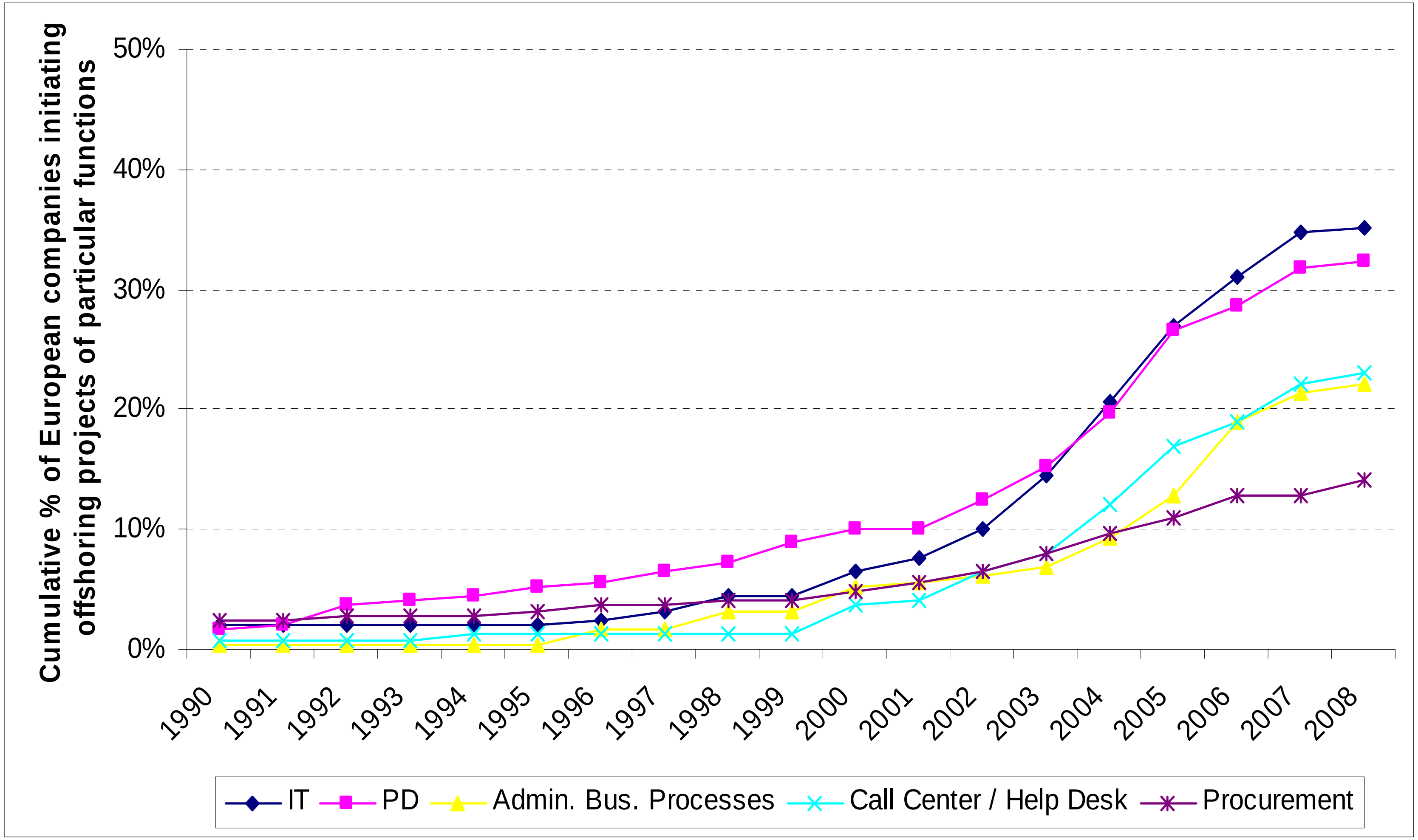
OFFSHORED PROJECTS BY BUSINESS FUNCTION, USA



OFFSHORED PROJECTS BY BUSINESS FUNCTION, EUROPE



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LOCATION AND FUNCTIONS OFFSHORED, PERCENTAGE

USA	India	China	LA	Phili	E Eur	Oth Asia	Total (N)	EUROPE	India	China	LA	Phili	E Eur	Oth Asia	Total (N)
Admin M&S	58	7	10	12	8	5	100 (217)	Admin M&S	33	7	9	5	35	11	100 (130)
CC	41	6	20	22	5	6	100 (132)	CC	28	7	24	4	22	16	100 (76)
IT&Soft	62	10	8	6	9	5	100 (290)	IT&Soft	48	8	10	5	20	9	100 (203)
PD	57	23	5	3	7	6	100 (240)	PD	36	21	7	6	19	12	100 (135)
Proc	43	29	10	8	4	6	100 (49)	Proc	18	19	25	1	25	11	100 (79)
Total	56	13	10	9	7	5	100 (928)	Total	36	12	13	5	24	11	100 (623)

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OFFSHORE LOCATION AND DELIVERY MODE, PERCENTAGE

USA	India	China	LA	Phili	E Eur	Oth Asia	Total (N)	EUROPE	India	China	LA	Phili	E Eur	Oth Asia	Total (N)
Captive	40	60	41	37	50	60	44	Captive	41	59	56	93	68	62	56
Outsourcing	59	37	56	60	50	40	54	Outsourcing	53	27	42	7	26	26	37
Joint Venture	1	2	3	3	0	0	2	Joint Venture	7	14	2	0	7	12	7
Total	100	100	100	100	100	100	100	Total	100	100	100	100	100	100	100
(N)	(345)	(81)	(68)	(65)	(50)	(30)	(639)	(N)	(123)	(44)	(55)	(15)	(90)	(42)	(369)

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OFFSHORE LOCATION AND COMPANY SIZE, PERCENTAGE

USA	India	China	LA	Phili	E Eur	Oth Asia	Total (N)	EUROPE	India	China	LA	Phili	E Eur	Oth Asia	Total (N)
Small	16	22	19	15	16	38	18	Small	22	45	43	5	40	29	32
Midsize	42	44	21	36	35	33	38	Midsize	55	36	32	68	43	53	48
Large	42	34	60	49	49	29	43	Large	23	19	25	26	17	19	20
Total	100	100	100	100	100	100	100	Total	100	100	100	100	100	100	100
(N)	(443)	(103)	(78)	(74)	(63)	(48)	(809)	(N)	(170)	(74)	(44)	(19)	(132)	(70)	(509)

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OUTSOURCING/OFFSHORING KIBS: WHAT IS NEW?

	Previous wave of (mainly) manufacturing outsourcing/offshoring	Present wave of KIBS outsourcing/offshoring
Who makes the decision	Vertical disintegration Operational decision, made at the factory or divisional level Affects blue collar workers Typically made by large multinationals	Unbundling and re-bundling of administrative functions Board decision, restructuring of corporate functions Affects administrative support of professional managers Made by large multinationals <u>and</u> SMEs – flexibility advantage to offshoring
Nature of suppliers	Supplier operates in the same sector as client Monopsonistic power of clients	Suppliers do not face competition from clients Suppliers develop know how that can be applied to clients in a broad range of sectors Development of large global suppliers (IBM, EDS, Accenture); growth of Indian SIs (TCS, Wipro); MNCs (GE, American Express, Citigroup) pioneers relocation back office; Indian operations of MNCs climbing up ladder (CiscoCentre East in Bangalore)
Role of ICTs	Enabling role	Organisational function that can be outsourced/offshored Coordination tool for dispersed activities (SAP, Electronic Notebook System)

OUTSOURCING/OFFSHORING OF KIBS: WHAT IS NEW?

	Previous wave of (mainly) manufacturing outsourcing/offshoring	Present wave of KIBS outsourcing/offshoring
Nature of investment	To exploit domestic capabilities and serve host markets Co-location of manufacturing and marketing	To serve activities based on the home country or global operations Less role for local demand
Formation of clusters	Industry based Competition in the supply chain	Hybrid organisations and complex networks Geographic clusters develop around particular functions Challenge: knowledge management to identify sources of knowledge and link to and absorb external knowledge
Location	Triad Sequential internationalisation to Asia and Latin America since the 1950s	Rapid re-location (purely electronic) of existing of activities to India and China in the 1990s and in rest of Asia and Eastern Europe in the 2000s Important set of activities remain rooted in advanced economies; reliance on vagaries of MNCs

EMERGENT ISSUES FOR POLICY

Large firms <u>and</u> SMEs increasingly involved in distributed innovation chains, hybrid relations with other firms (captive, outsourced operations, jv)

Despite the emergence of China and India as hubs, important set of economic activities rooted in advanced countries

Skills to explore science and technology developments outside the firms

Management skills for coordination and integration of decentralised knowledge-creating activities

Diffusion of ICTs as enabler and for coordination

Development of contractual ability (SLAs)

Research and innovation policies in home countries lagging behind