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A new phase of globalization in the IT Industry

New global production models
and the perspective of IT professionals

Seminar of the IBM EWC project
Bratislava, September 20th 2008

- Research Background – The Research Project Export IT
- A new Phase of Globalization and the Rise of new Globally Integrated Business Models
- IT Industry – At the Leading Edge of the new Phase of Globalization
- Globalization and IT Professionals: Need for sustainable Strategies of Globalization

ISF München ...



... is one of the leading research institutions for work and industrial sociology in Germany.

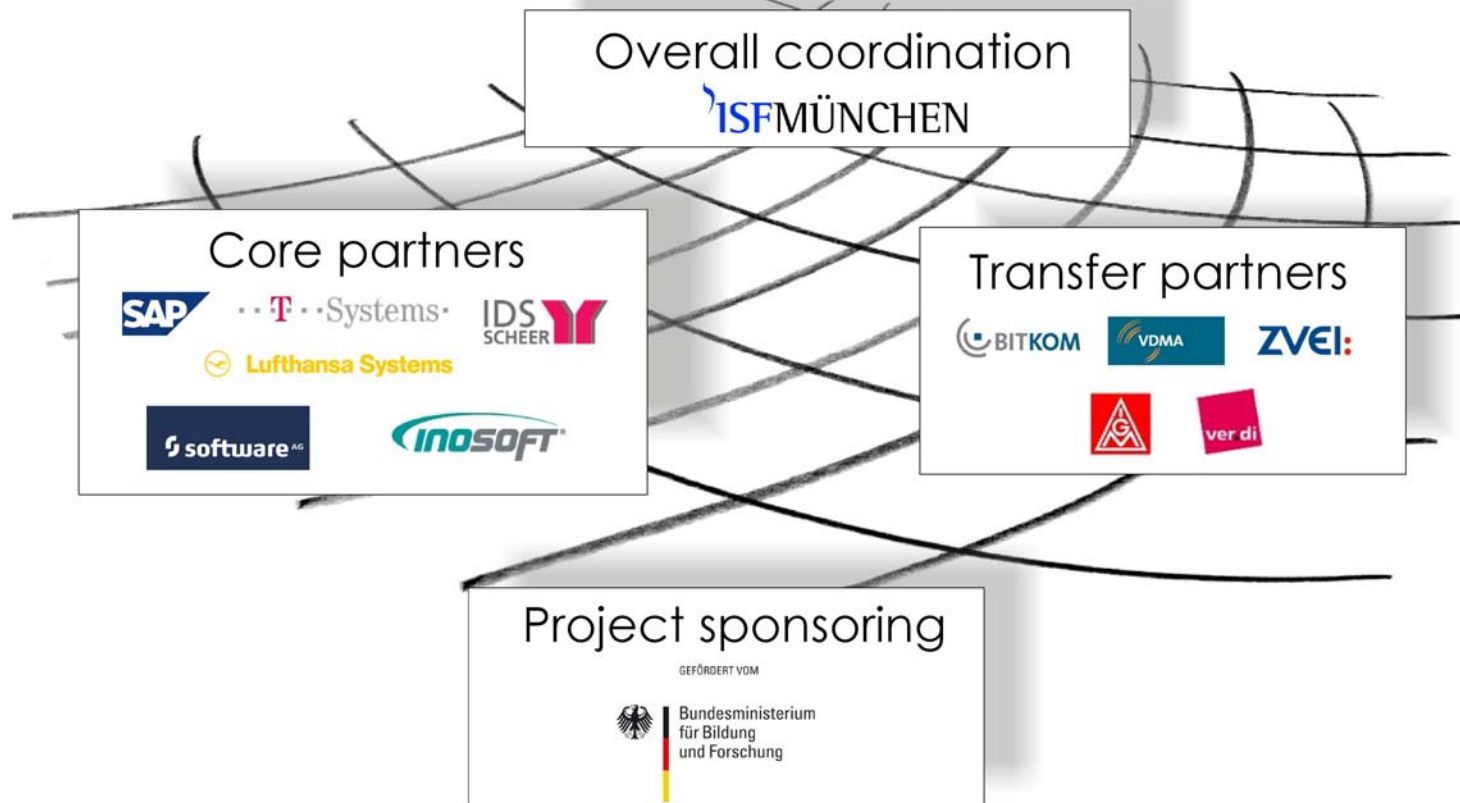
... is an independent non-profit organisation established in 1965.

... about 40 members conduct empirical social research in a comprehensive sense. This includes theoretical reflections as well as applied research in the public and private sector.

... our research activities are mainly funded by government departments, research associations, foundations and the EU.

The Research Project "Export IT"

- Export IT – Success Factors of Internationalization and the Exportability of IT Services
- Goal: identify and develop sustainable globalization strategies – description of best practices
- Method → Comparative case studies of companies at the center of global value chains
 - Expert discussions
 - Management
 - Team and Project Managers
 - Employee Representatives
 - In-depth interviews with employees
 - Documentation analysis
- Empirical Basis → Qualitative Surveys in ...
 - Germany (15 Companies, 150 Interviews)
 - India (9 Companies, 50 Interviews)
 - Eastern Europe (5 Companies, 35 Interviews)
 - USA (1 Company, 8 Interviews)



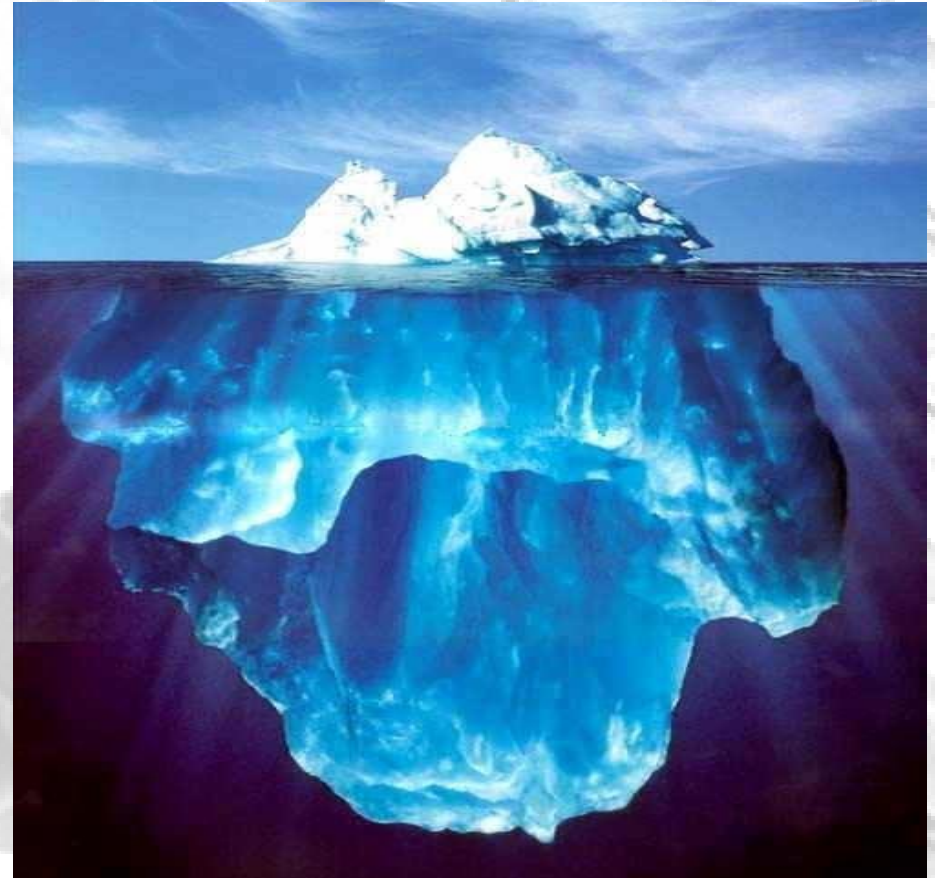
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From global manufacturing to the globalization of services

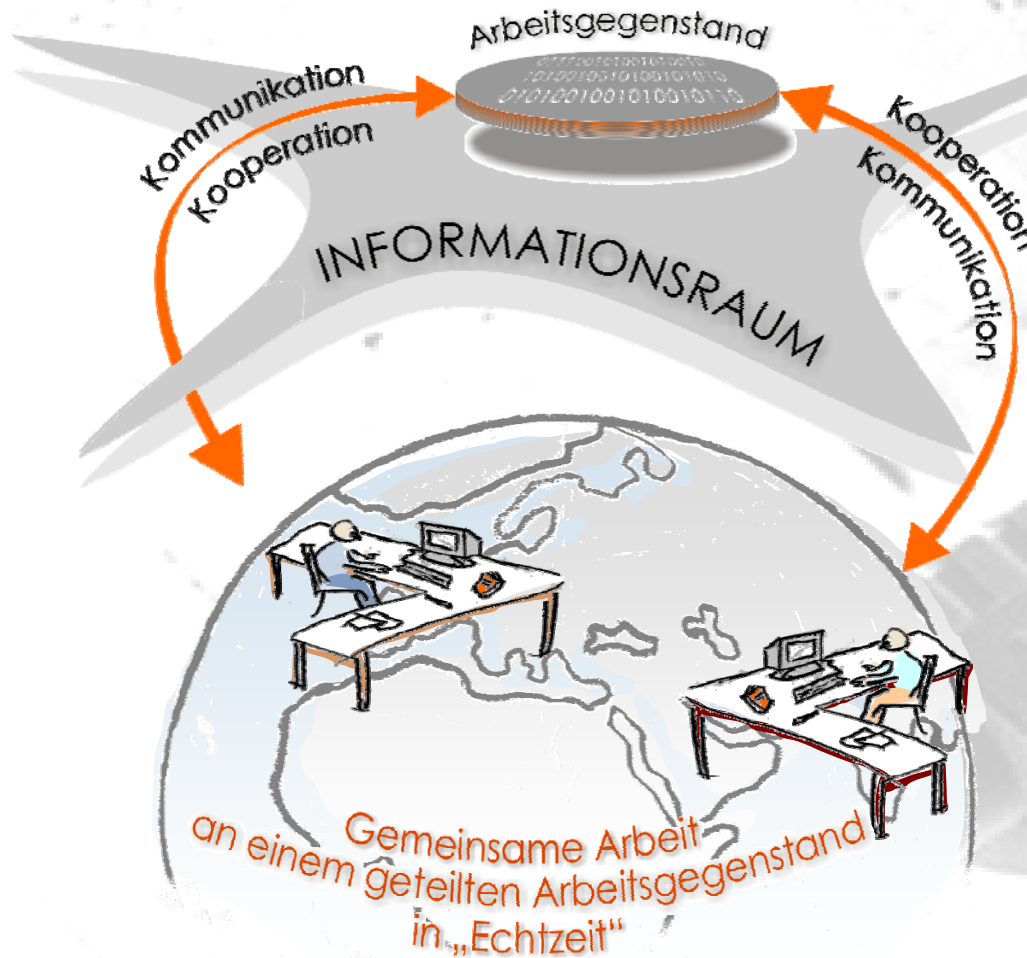
- Focus of globalization has been industrial manufacturing so far – Relocation of „blue-collar“ jobs in low-wage countries has become „common“ in the age of globalization
- In contrast to manufacturing → service industries were usually considered as „non-internationalisable“
 - Uno-actu-principle – Close contact/interaction to customers
 - „Knowledge-intensity“ of many services
- Discussion on „Offshoring“ indicates a major change: certain service industries are now being drawn into globalization
 - Since 2003/2004 intensive about the future of service jobs in „high-wage“ locations like US and Europe
 - Even highly skilled knowledge-workers are affected in a new quality – „White collar jobs“ get under increasing pressure of globalization
 - Risk: Instrumentalization of competition between different locations, in order to cut wages and to weaken employees' representatives
- Not all services are affected – Focus of this development are ...
 - IT-Services and software development
 - Administrative functions: „Business Process Outsourcing“, „shared services“
 - Certain fields of R&D („engineering services“)

Offshoring is just the tip of an iceberg ...

- Offshoring is just the visible part of a fundamental economic change
- It is characterized by ...
 - New globalization processes
 - Standardization and a new type of industrialization of service production
 - A new quality of insecurity even for highly-skilled knowledge workers
- New phase in globalization and the rise of new global business models



Basis for the New Phase of Globalization: Emergence of a Global Information Space



- Information and communication networks form the basis for a new global information space
- Use of IT allows globally dispersed brain work
- New economic geography
 - Seamless operation for companies globally
 - Specific services can be produced globally
- IT Industry at the center of that development: Forerunner and enabler

Emergence of new globally integrated companies

- New globally integrated companies and business models emerge
 - One of the most important forerunners → IBM
- In spite of varied corporate strategies of globalization → basic characteristics of new globally integrated companies can be identified:
 - Standardization of main business processes
 - Flexible management by using unified IT-based controlling and accounting Systems
 - Systemic Integration of different company locations and business functions
- New global production and business models are based on the integrative effect of the „information space“
 - Objects of work and main „tools“ are „located“ in the „web“
 - Communication systems are based on modern IC technologies
 - IT-Based Controlling (75% of 1000 biggest corporations use SAP)

New „geographies“ of global production models

- Based on the „information space“ globally integrated companies can take decisions on the location of business operations, where formerly „there was nothing to decide“
...
 - *„A globally integrated company (..) locates operations and functions anywhere in the world based on the right cost, the right skills, and the right business environment.“ (Sam Palmisano)*
- ... however, the production of services is not becoming „footloose“
 - There is no „automatism“ towards the shifting of jobs to low-wage countries
 - A new relation of space and place is emerging
 - New geographic patterns of global production structures develop
- Diverse „geographies“ can be expected for different service industries and business operations
 - Maturity of Standardization → processes, products and tools
 - Availability of adequate skills
 - Business environment and cultural context
 - Aspects of security and cost
 - Power relations and possible conflicts in the company
 - etc.

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Development Phases for the Globalization of the Software and IT Service Industries

Reactive...

... Strategic Planning

"Follow the Customer"



Focus: More International Distribution
"Opportunistic" Globalization

Differentiation of Production Capacity



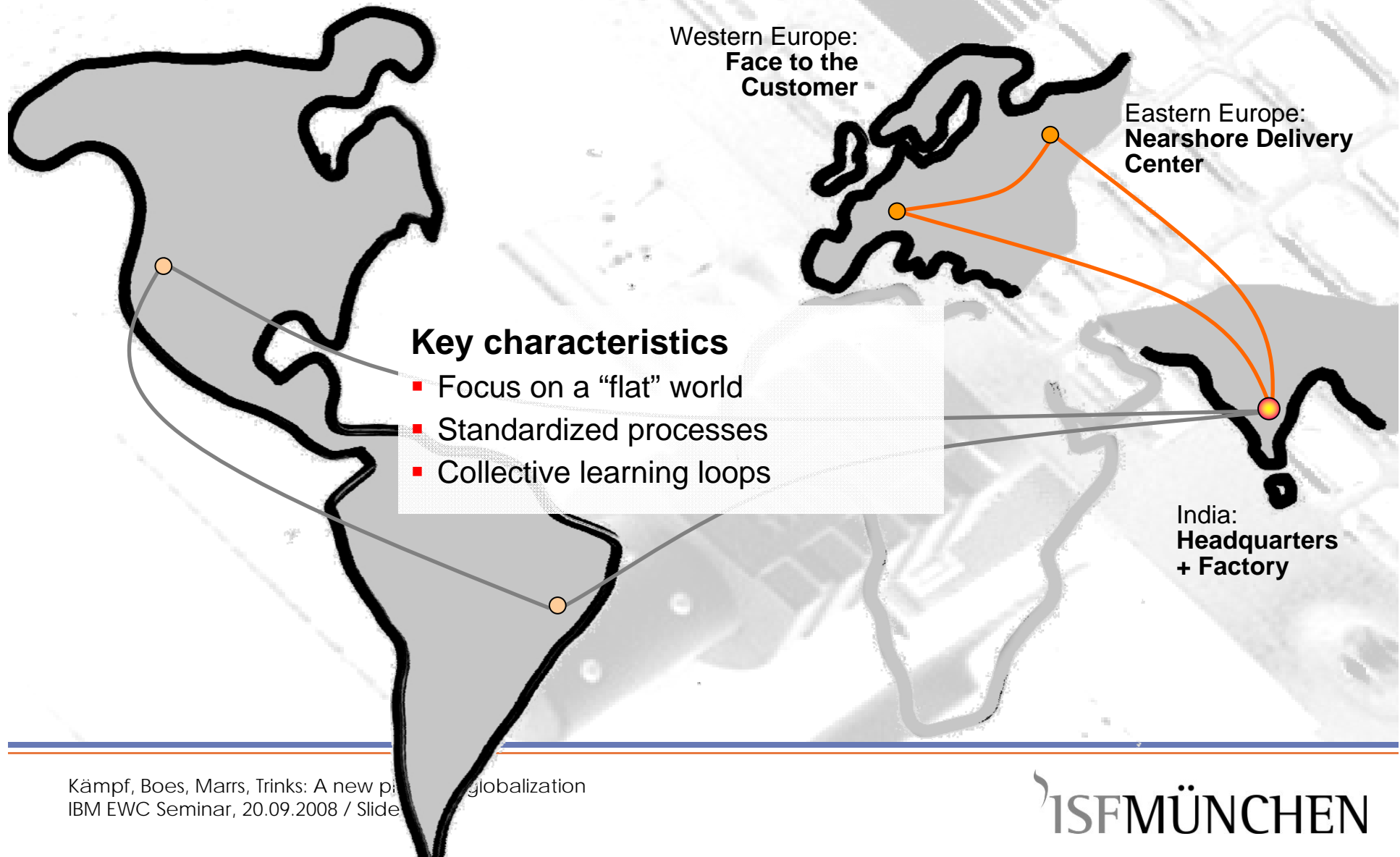
Market Opening and Innovation in High-Salary Countries.
Cost Savings in Off- and Nearshore Countries

Global Integrated Production Model

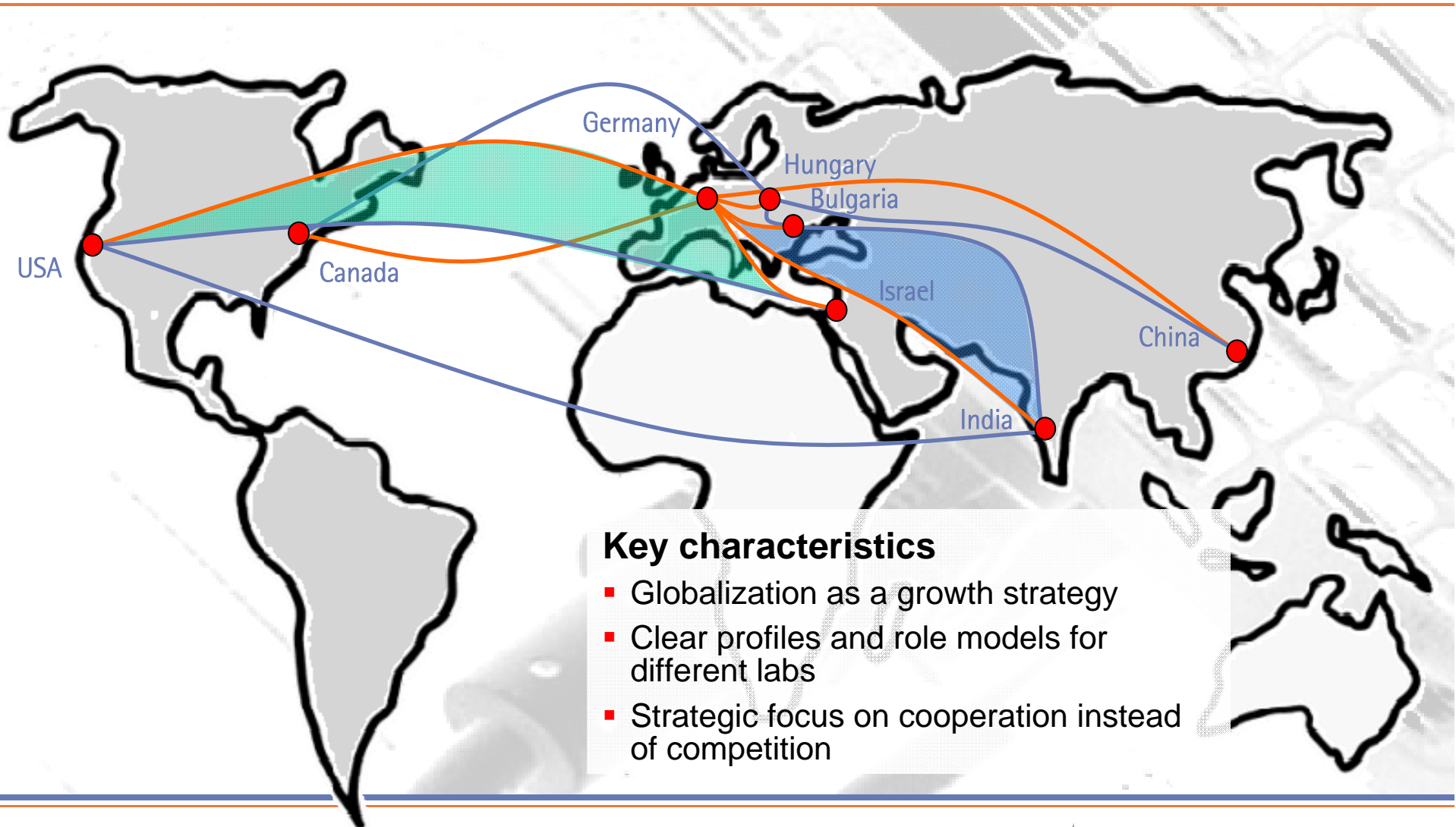


Systematic Integration of Globally Distributed Locations.
New Type of Industrialization

Example I: Global delivery model of Indian IT Service Providers

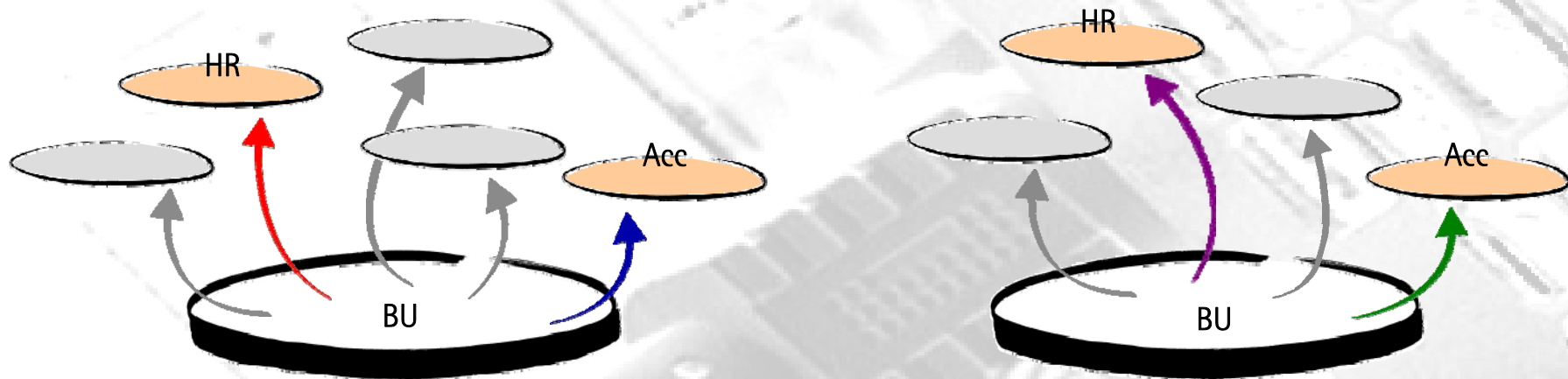


Example II: Global Network of Software Development Labs



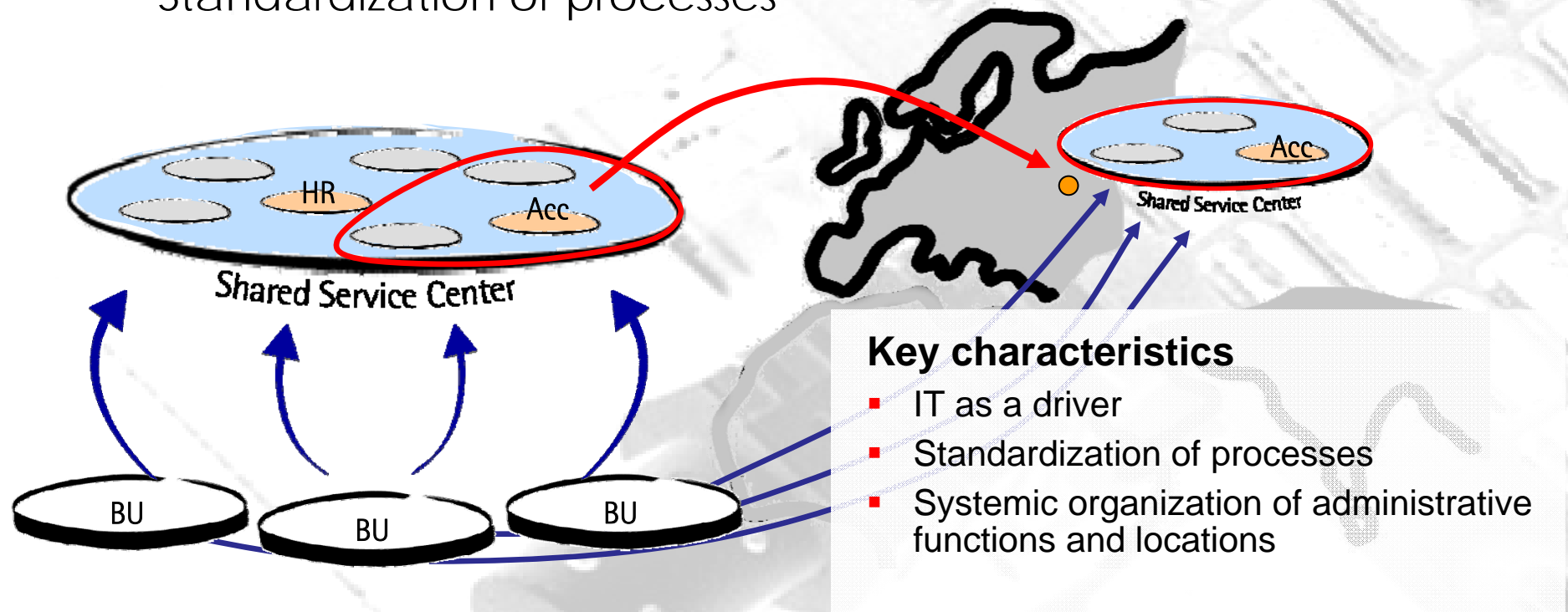
Example III: Globalization of administrative functions „Shared Services“

- Starting point: Several Business Units, each operating own administrative functions with „singular“ processes



Example III: Internationalisierung im Zuge von „Shared Services“

- Centralisation of administrative functions at one location – Standardization of processes



- Parts of the Shared Service Center are shifted to foreign countries

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- The new phase of Globalization is a challenge – not just for the IT Industry but for other service industries as well
- New phase of globalization is a social process with an „open ending“ ...
 - On the one hand: Increased competition and changing interdependencies
 - On the other hand: Globalization strategies are fragile and highly dependent on the commitment and the willingness of employees to cooperate „across borders“
- Our empirical surveys indicate: Most IT companies still focus on competition but not on sustainable strategies of globalization
 - One-sided strategic focus: short-term cost cutting and job relocations to low-wage countries
 - „Prolonged Workbench“ and hierarchical relationships between different locations are still dominant models of contemporary global production models
 - Instrumentalization of competition: different national work-forces are played against each other out
- Result → Competition and ongoing rivalries endanger the success of new globalization strategies seriously

- Research results: German IT professionals are very sceptical towards globalization
 - Can internationally dispersed software work really work“
 - “What does this mean for my job?”
- Considering the strategic focus on cost-cutting of most German IT companies Globalization is first of all seen as „threat“ by employees
 - Fear of staff cuts and job relocations
 - Serious concerns about the future of the company sites in Germany
 - Growing lack of certainty: IT professionals fear to become „victims“ of globalization
- Motivation and active commitment becomes an issue ...
 - Low willingness to share knowledge and to improve processes
 - Even in successful German companies, IT professionals are not pushing forward globalization strategies

- Considering the globalization strategies of global IT companies even in the emerging countries (Eastern Europe, India) the IT professionals' stance towards globalization is characterized by skepticism, misgivings and insecurity
 - Important Exception: Employees of Indian IT companies
- IT professionals in Eastern Europe: Low confidence in the stability of new company sites of Western IT companies in Eastern Europe
 - "Stuck in the middle" → Quality-competition with high-wage-countries and cost-competition with India
 - IT Professionals are afraid, that the new jobs will soon move "further east"
 - They worry, that their company sites remain too small, to play an "independent" role in the networks of global IT companies
- Employees of Western IT Companies in India: Strong concerns, if they can really "move up the value chain" or will remain a "prolonged workbench" instead
 - IT professionals feel underchallenged and unvalued by foreign colleagues
 - Difficulties with German superiors and colleagues, who appear as harsh and arrogant
 - Increasing fluctuation as a result – Indian IT Companies often seem to be an attractive alternative for the Indian IT professionals

- Employees are a crucial factor of success for successful globalization
 - Global learning processes are based on the readiness of the employees at all locations to change processes and to share knowledge
 - Without dedication and motivation on the part of the employees it is hardly possible to achieve a successful globalization
- Competition and insecurity breed a climate of mistrust– threat for cooperative cultures of work
 - Impeded exchange of knowledge
 - Blocked learning processes
- Risk: IT Companies don't meet the challenge of a new phase of globalization successfully and fail to reorient their business models towards the new opportunities of collaboration in the "information space"
- Sustainable strategies of globalization as an alternative ...
 - Strategic focus on collaboration instead of competition
 - Place employees at the center of successful globalization strategies



Thank you very much
for your attention.

Further information:

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