



Tobias Kämpf, Andreas Boes, Kira Marrs, Katrin Trink

## New Global Production Models in the IT Industry and the “social fixes” of Globalization

Technologies of Globalization

Darmstadt, October 30/31th 2008

# The Research Project “Export IT”



- Export IT – Success Factors of Internationalization and the Exportability of IT Services
- Goal: identify and develop sustainable globalization strategies in the IT services and software sector
- 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)

- From the “information space” towards a new Phase of Globalization
- New Global Production Models in the Software and IT Services Industry
- The employees’ perspective and the “Social Fixes” of new Global Production Models

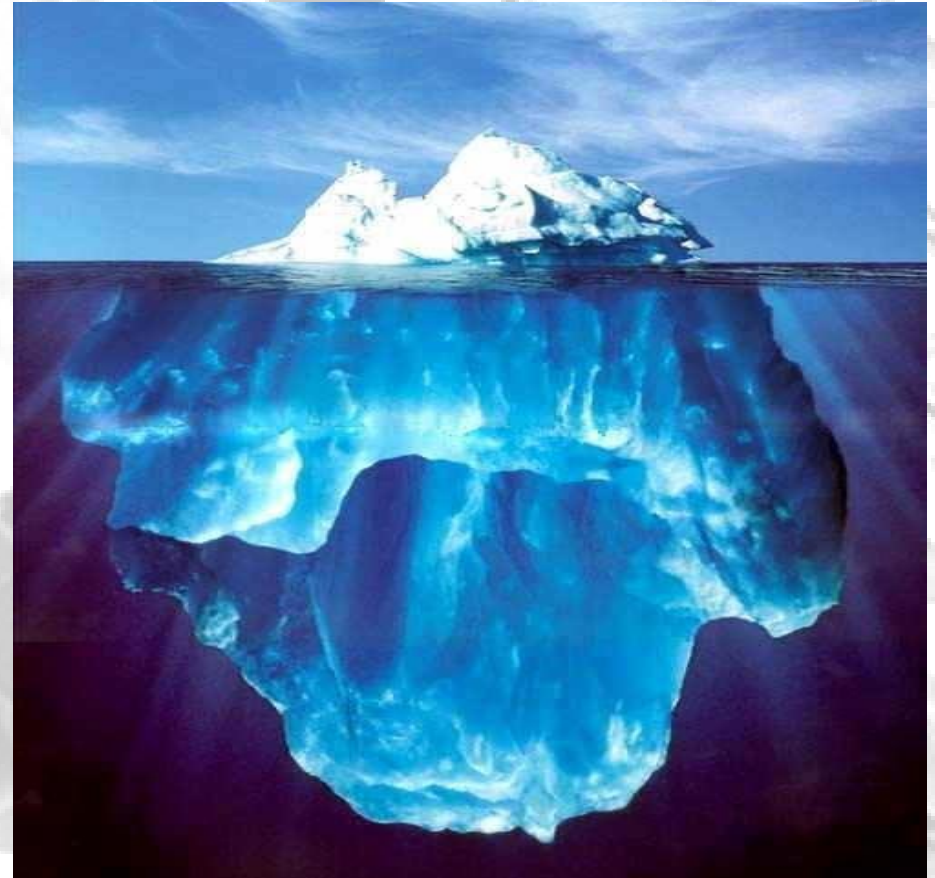
# From Global Manufacturing to the Globalization of Services



- 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 discussion 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
- 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“)

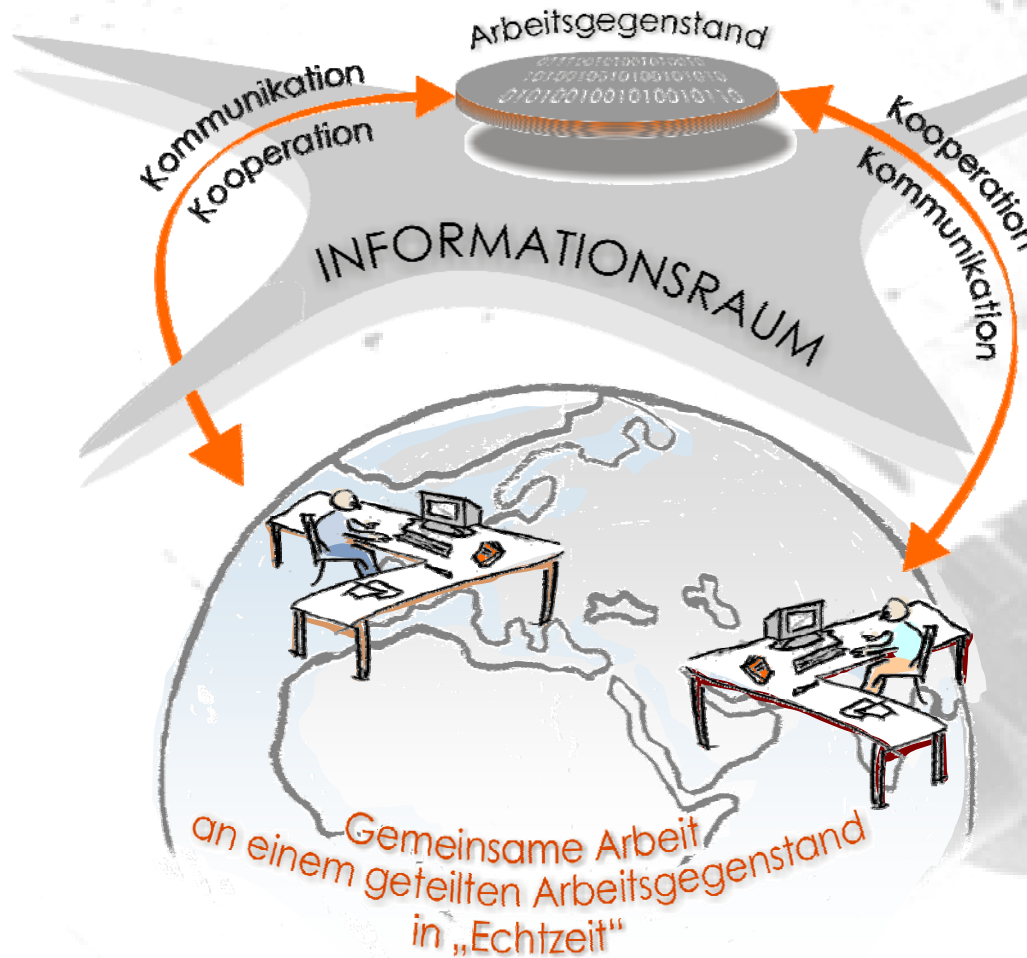
Offshoring is just the tip of an iceberg ...

- 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






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



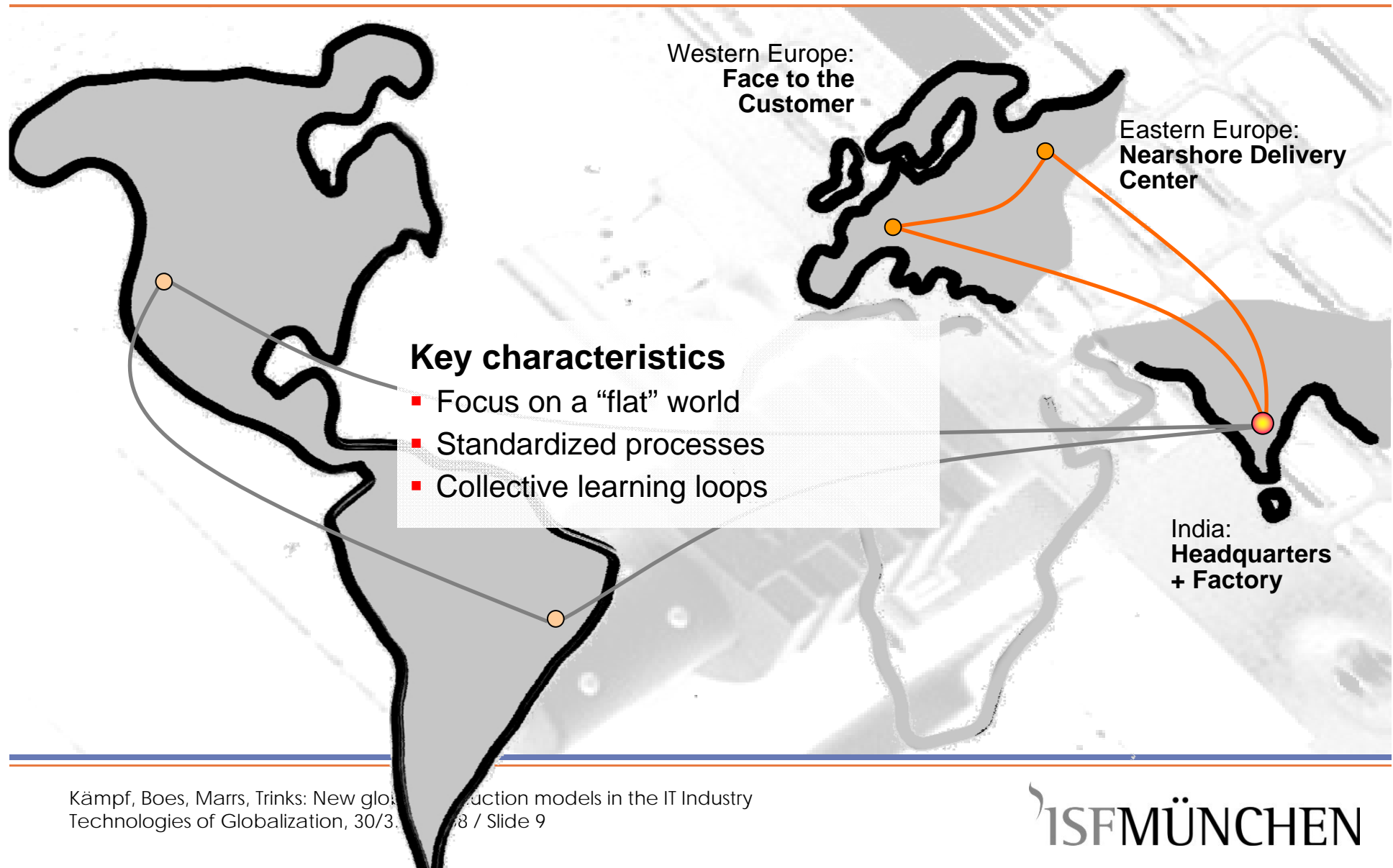
- Information and communication networks form the basis for a new global information space
- Use of IT allows globally dispersed brain work
- New phase of globalization
  - Globally integrated companies can operate seamlessly across the globe
  - Specific services can be produced globally

- 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, IBM)
- ... however, the production of services is not becoming „footloose“
  - There is no „automatism“ towards the shifting of jobs to low-wage countries
  - Knowledge work remains embedded in distinct socio-cultural contexts
- 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.

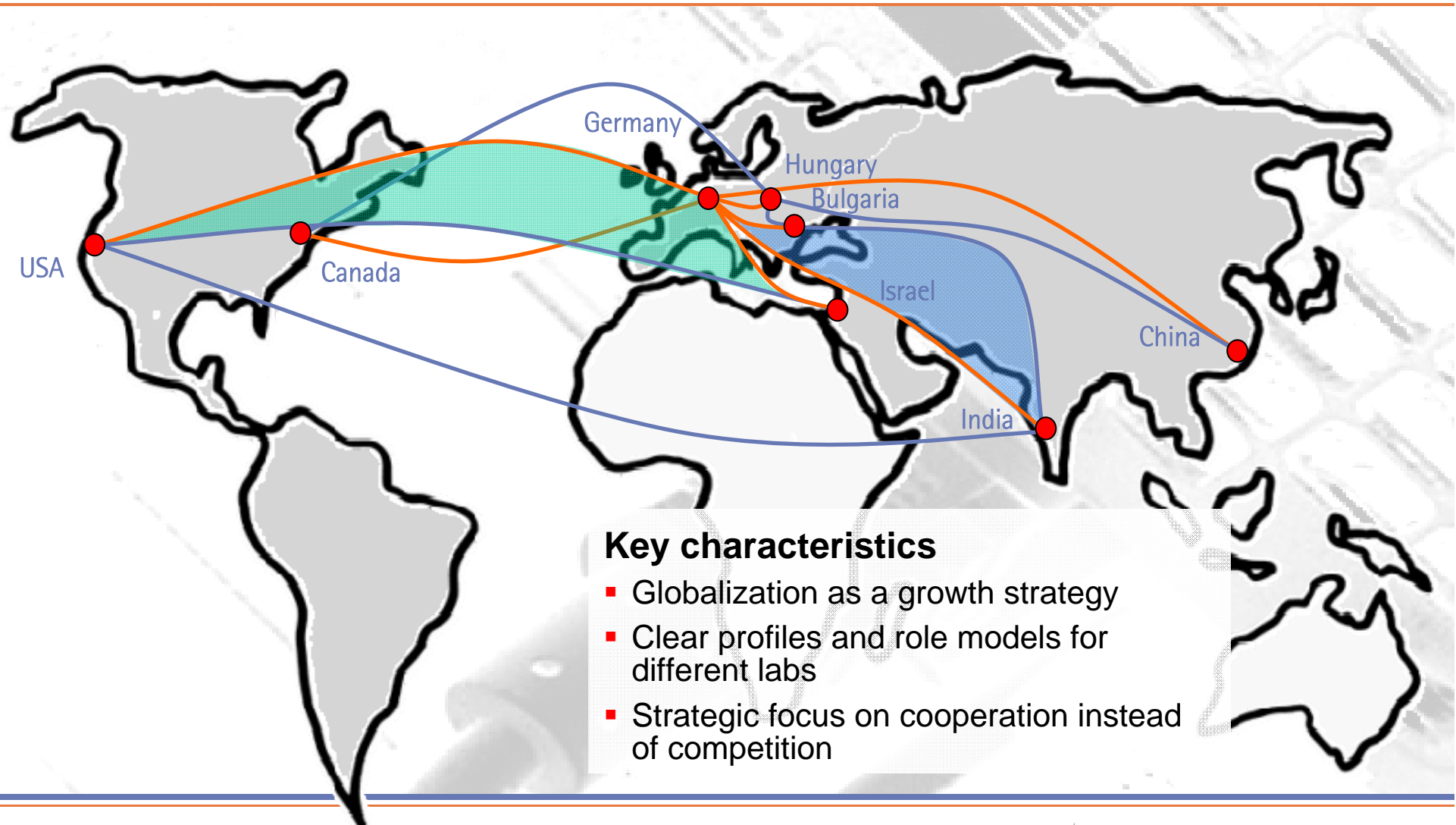
- 
- A faint, grayscale background image of a circuit board or microchip, showing various components and traces.
- From the “information space” towards a new Phase of Globalization
  - New Global Production Models in the Software and IT Services Industry
  - The employees’ perspective and the “Social Fixes” of new Global Production Models




## Example I: Global delivery model of Indian IT Service Providers



## Example II: Global Network of Software Development Labs



- 
- A faint, grayscale background image of a circuit board or microchip, showing various components and traces.
- From the “information space” towards a new Phase of Globalization
  - New Global Production Models in the Software and IT Services Industry
  - The employees’ perspective and the “Social Fixes” of new Global Production Models

## Globalization as a social process

- New phase of globalization is a social process with an „open ending“
  - On the one hand: Increased competition and new 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 a comprehensive use of the new potentials 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 can become “social fixes” and 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 relocation
  - 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

## IT Professionals in the emerging countries

- 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



# Competition as a strategic trap of new forms of Globalization

- 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
- Strategic focus on Competition and insecurity breed a climate of mistrust
  - Threat for cooperative cultures of work
  - Impeded exchange of knowledge
  - Blocked learning processes
- Competition as a strategic trap → IT Companies don't meet the challenge of a new phase of globalization sufficiently and fail to develop the new technological opportunities of cross-border collaboration in the "information space"
- The future of new forms of globalization is not just a question of technology  
→ Can cooperation gain importance in contrast to competition as an organisational principle in cross-border labour processes?



Thank you very much  
for your attention

Further information:

Dr. Tobias Kämpf  
ISF München

Jakob-Klar-Str. 9, 80796 München  
+49 (0) 89 272921-0

<http://www.export-it.de>