Factors for the Success of the Internationalization and Exportability of IT Services

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A new stage of development in the IT software and service sector: Scenarios of internationalization and the challenges for trade unions

Presentation held at the 13th UNI IT Forum: „Anticipate and manage change in information technology“

Barcelona, June 19th 2006
Agenda

- Scientific background
- A new stage of development in the IT software and service sector
- Changing parameters for corporate strategies
- Scenarios of internationalization
- New challenges for trade unions
The ISF München ...

... is an independent non-profit organization established 1965.
About 30 members conduct scientific research projects.

We conduct both theoretical and applied research in the public and private sector. We have been engaging in research for more than 40 years as an independent institution without public endowments.

Our main research areas are sociology of work and industry.
Our research projects are mainly funded by federal and regional ministries as well as other public institutions of research promotion.
The research project “Export IT”

- **Export IT – Factors for the Success of the Internationalization and Exportability of IT Services**
- **Goal:** to identify and develop sustainable strategies of internationalization
- **Three central elements:**
  - Empirical survey of criteria of successful internationalization
  - Evaluation and generalization of the results in cooperation with expert forums
  - Development and implementation of a target group specific transfer concept
- **Term:** June 2005 – May 2008
- **Funded by means of the Federal Ministry of Education and Research (BMBF)**
Project network „Export IT“
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A new phase of the world economy

- New phase of the world economy – „tradability revolution“ (UNCTAD)
- Service industries become an object of a new international division of labour (e.g. call-centers, x-ray diagnostic imaging, IT-services)
- Even highly skilled knowledge workers are affected by globalization
- Background: Informatization and the rise of new ICTs
- Focus of this development → IT software and service sector ...
  - ... as an enabler
  - ... as a forerunner
- Main idea: A new stage of development in the IT software and service sector
Historical development – three waves

Hardware at the core ...

The rise of IT services ...

Industrialization and internationalization of IT services

1950

Proprietary standards
Segmented markets

Standard software replaces individual software;
IT services become an independent business segment

Internet as a driver of global, non-proprietary standards;
New type of industrialization of IT services

2000
Internationalization and Industrialization

A new stage of development in the IT software and service sector

A new stage of internationalization, 13th UNI IT Forum
Barcelona 19.6.2006 / slide 9 / Kämpf et al.
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Products and services: IT becomes a commodity
- „Unique selling positions“ cannot be sustained
- Growing importance of economies of scale
- Prices become the decisive factors for success
- SMEs are at risk to lose competitiveness

Global levelling of prices and profit
- Prices get under pressure
- Offshore costs appear as global „benchmark“
- Growing influence of international financial markets ➔ return assumptions of shareholders rising
A global labour market is emerging ...
- Job profiles and needs for qualifications become increasingly homogeneous
- A highly skilled work force is globally available (e.g. India, China, Eastern Europe)
- No need for migration to benefit from global wage differentials and to tap foreign sources of knowledge
- Global division of labour is located within the „cyberspace“
- IT companies set up own „points-of-production“ in off- and nearshore countries

The formerly segmented market is opened and replaced by a homogeneous world market for IT services
- National niche strategies become „dead ends“
- The world market becomes the framework for nearly all IT companies
Internationalization – more than offshoring and nearshoring

- A new stage of internationalization ...
  - ... Homogeneous world market
  - ... Global Sourcing

- New chances and opportunities ...
  - Growing foreign markets
  - International collaboration and knowledge transfer
  - Benefits from cost advantages

- New risks and necessities ...
  - Increasing competition
  - Erosion of corporate knowledge and innovation base
  - Staff reductions and social conflicts
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Facing a new stage of internationalization

- IT companies cannot go on as they used to. Internationalization is no longer an option amongst others but becomes a strategic „must“.

- Companies differ in their international experience and particular preconditions. The characteristic challenges of internationalization are varying.

- Main criteria …
  - Company size and position in the market
  - Different products and services
  - Scope of experience and maturity of internationalization
  - Internationalization as a part of company growth or company consolidation
Scenarios of internationalization

Internationalization as a "story of success"

Internationalization "under pressure"

Corporate autonomy at risk
Internationalization as a „story of success“

- Based on wide experience and a favourable market position internationalization is carried out as a growth strategy.

- Challenges:
  - These companies must not „rest on their laurels“

- Possible strategic goal:
  - To become a uniformly acting „global company“

- Risks:
  - Negative dynamics of increased price competition
  - Losing the capacity to act strategically and to determine the company’s course of action
Internationalization “under pressure”

- International activities have hardly been in the company’s focus so far, growing foreign markets and cost pressure are calling for an accelerated internationalization

- Challenges:
  - To develop a strategy which copes with the lack of experience, the increased cost pressure and the necessity to be quicker than the competitors

- Possible strategic goal:
  - To focus on certain regional markets and particular products and services

- Risks:
  - One-sided cost-orientation threatens long-term success and the sustainability of internationalization
  - To proceed too fast
Corporate autonomy at risk

The dilemma of SMEs: Internationalization increases the competition in domestic markets – at the same time they possess too few resources to carry out an offensive strategy of internationalization.

Challenges:
- To gain the ability to act in a global context

Possible strategic goals:
- To establish collaborative links to bigger partners
- Protection of „unique selling positions“

Risks:
- Intensified competition
- Take-overs by other companies
New challenges for trade unions

- Even for trade unions it is true: Internationalization becomes also a strategic „must“

- New necessities and risks …
  - Danger of a global „race-to-the-bottom“
  - Shifting balance of forces
  - Restricted possibilities to intervene and to take action

- … but new opportunities and chances as well
  - New target groups
  - New cultures of communication based on modern ICTs
  - If trade unions internationalize and modernize their structures as well, they can become a major player in a new global world of work
ERFOLGSAFTEOREN DER INTERNATIONALISIERUNG UND EXPORTFÄHIGKEIT VON IT-DIENSTLEISTUNGEN

Das Projekt Export IT zielt auf die Förderung der Internationalisierungs- und Exportfähigkeit der Dienstleistungswirtschaft, indem Internationalisierungsstrategien erfolgreicher IT-Unternehmen untersucht, auf ihre Übertragbarkeit überprüft und die Erkenntnisse innerhalb der IT-Branche selbst, aber auch in vergleichbare Dienstleistungsbranchen transferiert werden. Das Verhalten wird durch ein Projektnetzwerk integriert, das aus einer Kerngruppe von fünf IT-Unternehmen sowie weiteren Transferpartnern besteht.

Export IT baut auf der langjährigen Expertise der bearbeitenden Wissenschaftler:innen auf und steht im Kontext thematisch verwandter Projekte des ISF München.


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Thank you for your attention!

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