Global Business Services: Increasing Specialization and Integration of the World Economy as Drivers of Economic Growth

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28 January 2014

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ABSTRACT

Purpose – The purpose of this paper is to explore the contribution of global business services to improved productivity and economic growth of the world economy, which has gone largely unnoticed in service research.

Design/Methodology/Approach – The authors draw on macroeconomic data and industry reports, and link them to the non-ownership-concept in service research and theories of the firm.

Findings – Business services explain a large share of the growth of the global service economy. The fast growth of business services coincides with shifts from domestic production towards global outsourcing of services. A new wave of global business services are traded across borders and have emerged as important drivers of growth in the world's service sector.

Research Limitations and Implications – This paper advances the understanding of non-ownership services in an increasingly global and specialized post-industrial economy. The paper makes a conceptual contribution supported by descriptive data, but without empirical testing.

Originality/Value – The authors integrate the non-ownership concept and three related economic theories of the firm to explain the role of global business services in driving business performance and the international transformation of service economies.

Keywords: Business services, service economy, outsourcing, off-shoring, non-ownership, rental-access-paradigm, property rights theory, resource-based view, entrepreneurial theory of the firm.

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BUSINESS SERVICES AS ENGINE OF ECONOMIC GROWTH

Structural Change and the Importance of the Service Sector in the World Economy

The service sector accounted for over 70% of global gross domestic product (GDP) in 2010 and has been expanding at a quicker rate than the agriculture and the manufacturing sectors for many decades (see Appendix 1). The share of services value added of GDP tends to rise significantly with a country's level of income, standing at 73% on average in high income countries (77% in the United States), against 54% and 47% respectively in middle- and low-income countries (WTO 2010) (see Figure 1).

Insert Figure 1 here

The current importance of the service sectors' contribution to GDP follows decades of sustained growth ,which is also mirrored in employment statistics (see Appendix 2). Over the last two decades, employment shifted significantly from the agriculture and industrial sectors to the service sector (WTO 2012). At the end of World War II, employment in the services sector accounted for only ten percent of U.S. employment, compared with 38 percent for manufacturing (Adam 2013). Today, 78 percent of American jobs are in the service sector. It is worthwhile to note that Asia follows the United States towards a service-driven economy. Asia is on the verge to turn the "world's factory … into an economy driven by services" (Adam 2013), where services exceeded 50 percent of GDP in 2013 for the first time. We argue in the next section that a key driver of the strong demand for services is the transformation of manufacturing and the closely related phenomenon of outsourcing.

Outsourcing and the Growth of Business Services

Outsourcing refers to a "contractual agreement according to which the principal requires the

contractor to carry out specific tasks, such as parts of a production process or even the full production process, employment services or support functions" (Eurostat 2008, p. 359). That is, products or services that were previously produced internally are bought from another (domestic or offshore) company. Outsourcing involves greater specialization as firms switch from sourcing inputs internally to sourcing them from independent suppliers (Sako 2005). Outsourcing relates to the fundamental questions of why firms exist, and whether and what a firm should make or buy (Massini and Miozzo 2010). Primary drivers of outsourcing include consolidation, reducing costs, enhancing capabilities and increasing supply chain efficiency (Ramioul and Kirschenhofer 2005), gaining constant access to the latest technology, enhanced cash and balance sheet management, and tax efficiency (Wittkowsky, Moeller and Wirtz 2013).

Business services are services that are provided to other businesses rather than directly to consumers. Business services consist of a variety of knowledge-intensive and creative professional services (e.g., legal, accountancy, market research, consulting, design, and research & development), IT and technology-intensive services (e.g., data processing, database activities, and IT and communications infrastructure-related services) as well as diverse activities such as financial, labor recruitment and operational support services (e.g., industrial cleaning activities) (Abramovsky et al. 2004; ECORYS 2012; Eurostat 2009; OECD 2007). According to Rubalcaba-Bermejo (2004), business services contribute to global access to capital, and productive inputs and technology, but also to access to new markets and, more recently, to off-shoring and international outsourcing processes. In recent years, several government and industry reports (e.g., BIZ 2010; Fersht et al. 2011; Huber and Danino 2012; NSF 2012), and the academic literature in domains such as economics (e.g., Ciarli et al. 2012) and services marketing (e.g., Ehret and Wirtz 2010; Ehret, Kashyap, and Wirtz 2013; Ndubisi 2010; Wirtz and Ehret 2009) have raised attention to the rise of business

services.

The underlying dynamics of the fast growth in business services are demonstrated in the following example. A manufacturing firm operates its own canteen with 100 workers, who in the national statistics are classified as “manufacturing employees”, and who produce “manufacturing output” (their output is captured in the added value created by their employer, i.e., the manufacturing firm, and contributes to the GDP of the manufacturing sector). However, how good is a manufacturing firm in designing and running kitchen processes, supervising chefs, purchasing cooking ingredients, and controlling quality and costs in a canteen? The general answer is that a manufacturing firm would probably neither produce great food nor be cost effective. The reasons for this are threefold. First, the operation lacks economies of scale and is high on the learning curve. Second, the manufacturer does not have the experience of catering to many sites, which makes management, cost and quality control difficult. Third, the manufacturer has little incentive to improve processes or conduct R&D on its canteen operations, mainly because of the low criticality of canteen operation to its overall business. As such, the canteen would neither justify much management attention nor investments in process improvements or R&D (Wirtz 2000, Wirtz and Ehret 2009, 2013).

Many manufacturing firms have recognized this problem and outsourced their canteen operations. The winning bidder is likely to be a firm that specializes in running canteens across many sites. That company makes “operating canteens” its core competency, so the operation is managed with an emphasis on service quality and costs (sites can be benchmarked internally), has economies of scale, and is way down the learning curve. It also makes sense for the firm to invest in process redesign, innovation and R&D as the benefits can be reaped across many sites. What used to be a neglected support activity within a manufacturing firm has become the focus of management and the core competency of an

independent service provider. Similar arguments can be advanced for a wide range of support services which has led enterprises to be able to hire almost any conceivable business activity, capability and asset as a service (see Figure 2), and allow for an array of innovative new business models (Ehret, Kashyap, and Wirtz 2013).

Insert Figure 2 here

Gaining an estimate of the true share of business services is far from trivial. The dominant approach of economic statistics is to classify outputs. For example, the approach is used by the EU's statistical nomenclature NACE ("Nomenclature générale des Activités économiques dans les Communautés Européennes"), Revision 1.1. Table 1 outlines the main sectors that encompass business services based on NACE.

Insert Table 1 here

However, businesses use virtually any type of output, ranging from raw materials, electricity and passenger cars, to travel and hospitality services. Used in isolation, output-based measurements as used by NACE cannot reveal the role of business services. In addition, it is important to note that predominantly output-based statistics are ill-equipped to capture the substitution of inhouse-services by external service-providers that drive the rise of business services in the economy (OECD 2007). Statisticians have started to address these shortcomings by having a closer look at the user side of economic activity, like for example the application of input-output analysis of GDP. If we apply this user-perspective, we recurrently identify a hitherto largely unnoticed sector of business services (see Woelfl 2005). Input-output analysis regularly identify strongest demand in two domains of the NACE statistical nomenclature, namely 72 'Computer and related activities', and 74 'Other business activities,' with the latter relating predominantly to business consulting.

Traditionally, economic research held that services lag in productivity behind manufacturing and therefore inhibit economic growth – a phenomenon called "Baumol's

disease" (Baumol 1967). This argument applies to certain consumer services, where productivity may not be the main purpose of service consumption or is hard to measure (e.g., a fine-dining experience or an opera performance). However, if services are supplied to businesses, they can significantly contribute to productivity growth of manufacturing as well as the overall economy (Oulton 2001; Wirtz and Ehret 2009). Indeed, macroeconomic research has repeatedly identified knowledge- and technology-intensive (KTI) business services as one of the fastest growing areas of the economy in terms of adding value to the output of manufacturing as well as employment generation and trade value (Bain & Company 2012; BIZ 2010; Eurostat 2008; Fersht et al. 2011; González Mieres et al. 2012; NSF 2012; OECD 2007). The sector's share of GDP has at least doubled in the past 25 to 30 years in most OECD member countries (OECD 2007). In contrast and contrary to common belief, there has been little change in the share of value added of consumer services (e.g., restaurants, hotels and retailing) over the same period (Woelfl 2005).

According to a recent industry study, the business services sector in the European Union accounted for almost two trillion Euro revenue, 24 million jobs and more than five million enterprises (ECORYS 2012). In the United States, the business services sector accounted for about 25 percent of employment (more than twice the size of the manufacturing sector) in 2010 (Gonzales et al. 2012). It also had the highest growth rate from 1997 to 2007 of 29 percent; compared to a 23 percent growth rate of consumer services (such as hospitality, health care and education), and a 21 percent decrease in manufacturing (Jensen 2011). Figure 3 illustrates the global growth of *knowledge- and technology-intensive* service industries from 1998 to 2010. Global value added of these industries totaled $18.2 trillion in 2010, representing 30 percent of the World's GDP (NSF 2012).

In conclusion, business services in general, and knowledge- and technology-intensive services in particular, are the fastest growing segments in the world economy.

Insert Figure 3 here

THE GLOBALIZATION OF BUSINESS SERVICES

International Services Trade and the Contribution of Business Services

Services used to be considered as non-tradable in the trade policy literature (Gonzales et al. 2012). Recent advances in communication and information technology (including the Internet) have reduced the need for face-to-face contact in the provision of many services and thereby removed one of the major barriers of services trade (Jensen 2009). As a result, the service sector has been playing an increasingly important role in the globalization of the world economy, and the growth and development of many countries. Official statistics show that the share of global exports of services has been growing steadily, reaching 21 percent of world trade in 2009 (WTO 2010). The pace in the globalization of services has been outstripping the globalization of goods over the past decade (Mann 2005).

While increased outsourcing of business services has led to a jump in international service trade (OECD 2007), Eichengreen and Gupta (2012) identified a new wave of global business services that further stimulates service trade. This second wave is comprised of services that use advanced information and communication technologies (i.e., financial, communication, computer, technical, legal, advertising and business services), which increasingly makes such services tradable across borders (Eichengreen and Gupta 2012). For example, Singapore Airlines outsourced many processes such as ticketing, financial accounting and payroll functions to specialized offshore service providers in India and the Philippines in a drive to cut non-fuel expenses by 20 percent as a response to an economic crisis that required drastic cost saving and reducing fixed costs and making them variable through outsourcing (Heracleous and Wirtz 2010), and this trend has continued since (Heracleous and Wirtz 2012). The GDP of those modern services has risen over the last 30 years from seven to 15 percent (Eichengreen and Gupta 2012). Figure 4 illustrates the

increase of exports of commercial knowledge-intensive services for selected regions and countries from 1998 to 2010.

Insert Figure 4 here

A number of other statistics also reflect the importance of business services in this current globalization wave (Rubalcaba-Bermejo 2004). The professional and business services sector has become more export intensive. For example, in the United States the share of export-supported service jobs rose from 19.0 percent in 1993 to 24.5 percent in 2010. In contrast, the share of export-supported manufacturing jobs declined from 41.4 percent in 1993 to 32.4 percent in 2010 (Rasmussen and Johnson 2012). Futhermore, growth rates in international trade of business services have been higher than trade in total services as well as the world economy (Rubalcaba-Bermejo 2004). Examining multinational corporations' (MNC's) supply chains, one can see that a substantial share of an MNC's production processes in their global supply chains is taking place in international markets, including developing countries. For example, Siemens Business Services (SBS), founded in 1995, has developed into a global full-service provider of information and communication technology (ICT) solutions and services, offering a complete "consult-design-build-operate-maintain" chain of services (EMCC 2005). SBS is now present in 44 countries with approximately 70% of its contracts delivered offshore.

Recently, the impact of service offshoring has entered the labor market debate (Grossman and Rossi-Hansberg 2008; Jensen and Kletzer 2010), whereby the basic premise is that "individual tasks that can be codified and digitized may be sliced off, outsourced and offshored, for instance to low-wage countries" (Gonzales et al. 2012, p. 177). On the one hand, the increasing division of labor has led to higher producitivity. On the other hand, critics of offshoring argue that the result is a migration of jobs from developed economies (e.g., the US, EU and Japan) to countries where salaries are much lower (e.g., India, the

Philippines and Russia) and lead to labor cost arbitrage (Criscuolo and Leaver 2005).

Global Business Services Models and the Rise of the Offshore Services Industry

Offshoring services is a relatively new and growing phenomenon. The offshore service industry refers to services that are *conducted* in one country and *consumed* in another (Gereffi and Fernandez-Stark 2010). While prior to the turn of the century, offshoring was mostly confined to the manufacturing sector, offshore services have emerged as a dynamic global sector over the past two decades, driven by the rise of information and communication technologies, the international tradability of services, and the evolution of global business services models.

Figure 5 shows different business models or trajectories that may develop in the outsourcing and offshore services industry (Gereffi and Fernandez-Stark 2010; Massini and Miozzo 2010; Sako 2005). The first scenario (Arrow 1) describes a firm's decision to outsource services locally. Arrow 2 describes a situation where a firm switches from a domestic supplier to a foreign supplier. In some cases, firms make the decision to outsource and to offshore to a foreign supplier simultaneously (Arrow 3). The fourth scenario is when firms source from foreign locations by establishing a foreign affiliate (Arrow 4). This is often referred to as "captive offshoring". Lastly, switching the service provision from a foreign affiliate to a foreign-owned supplier (Arrow 5) may occur, often involving the sale of foreign affiliates to local firms (Sako 2005).

Insert Figure 5 here

While outsourcing and offshoring are distinctive processes that relate to firm and country boundaries, and which can occur independently or jointly, more recently *global business services* (GBS) have emerged as a "predominant model that progressive, and increasingly mainstream, organizations are employing to manage their collective shared services and outsourcing efforts [in a global context]" (KPMG 2013, p. 6). The term GBS has

been applied to a variety of models attempting to coordinate service delivery across multiple functions such as finance and HR (Deloitte 2013). According to Huber (2013, p. 2), GBS represent an "integrated compilation of service offerings for any (multiple) support functions within a company (…) global in nature and with respect to both delivery centers and customers." That is, GBS models are different from the traditional approach of shared services and the past wave of manufacturing outsourcing/offshoring (see Figure 6) and should be viewed as a fundamentally different way of thinking about support services.

While many shared services and outsourcing strategies remain siloed and poorly integrated into corporate strategies with little alignment within the organization (Fersht et al. 2011), GBS models are multi-function, multi-region, multi-source and multi-business all at the same time and have a common leadership and governance structure that is closely tied to the firm's organizational objectives (Deloitte 2013).

Insert Figure 6 here

GBS models are *multi-function*, transcending an organization's traditional silos, be they functions, regions, or business units (Deloitte 2013). Furthernore, GBS models offer companies access to expertise and capabilities across the globe. While early forms of outsourcing and offshoring may have started in one region, fully organized GBS organizations are characterized that they operate globally both in terms of their delivery systems as well as their customers (*multi-region*).

GBS hold the potential of broadening the resource-base of companies as they unlock efficiencies in operations (Fersht et al. 2011). That is, value is captured through economies of scale, simplification, standardization and arbitrage of skills and labor (Huber 2012). As GBS organizations evolve, firms will employ a *multi-sourcing* concept in which businesses work with several suppliers, that "are competitors in a spirit of trust and teamwork, in a collaborative process to maximize the benefits associated with outsourcing process" (Andone

and Pavalaoaia 2010, p. 163).

GLOBAL BUSINESS SERVICES: CONTRIBUTIONS OF THE NON-OWNERSHIP PERSPECTIVE

The rise of the service economy has spurred an intensified debate about the conceptual foundations of services. Global business services are a case in point: with a growing supply of tradable knowledge- and technology-intensive business services, the lines between services and manufacturing are increasingly becoming blurred as firms are gaining access to capabilities and assets without the necessity of owning them (Lovelock and Wirtz 2011). In such settings, commonly used definitions of services may result in confusion. For example, researchers traditionally tended to use specific characteristics of services like intangibility, heterogeneity, inseparability and perishability (also referred to as IHIP) to distinguish goods from services (Zeithaml et al. 1985). However, the IHIP categorization does not capture important subsectors of business services such as rental, outsourcing or leasing (Lovelock and Gummesson 2004; Wittkowsky, Moeller, and Wirtz 2013). For instance, the outsourcing of support functions represents a division of labor and the introduction of a new organizational interface (between the firm and an external service provider) as internal operations are substituted by an externally-sourced service. The result is that the firm (which now becomes the client) has delegated assets, processes, responsibility and managerial control to an independent external service provider. One of the latest examples can be seen in the development of new marketplaces (e.g., Skilbridge.co, HourlyNerd.com) that allow startups and small businesses to hire consultants and freelance MBAs by the hour (Zlomek 2013).

Lovelock and Gummesson (2004) criticized the existing distinction between services and goods, and offer a new lens for services marketing: *non-ownership* or *rental/access of services*. They argue that services can be defined as transactions without the exchange of

ownership rights (i.e., the customer gains the right to use tangible or intangible resources), whereas goods-businesses entail the trading of ownership titles. In this light, services are characterized as market exchanges that convey benefits through temporary access rather than ownership, which is commonly referred to as the non-ownership perspective or the rental-access paradigm.

This approach captures decisive features of service industries in general and business services in particular (Wirtz and Ehret 2009). For example, renting assets or hiring an accounting firm provides clients with the opportunity to enjoy the potential benefits without necessarily owning the former or employing the latter. However, if companies perceive assets and people as a burden, why do they find service providers who are willing to take on these responsibilities? A key reason is that specialized service providers see the provision of these processes, assets and people as a business opportunity and they build core competencies around those (Rifkin 2000). As such, business services build upon the re-allocation of ownership from clients to service providers, thus enabling collaborative modes of value creation (Ehret, Kashyap, and Wirtz 2013). The economic potential results from the fact that ownership carries both costs and benefits. By refraining from ownership, clients tap into benefits of division of labor between organizations. This thinking underlies the debate of the economic theory of the firm which we will focus on next.

THEORIES OF THE FIRM: LINKING DIVISION OF LABOR AND SPECIALIZATION TO THE RISE OF BUSINESS SERVICES

A casual perusal of industry histories suggests that firms undergo periods of integration, followed by disintegration, perhaps followed again by re-integration (Jacobides and Winter 2005). One of the key questions in this context is, what drives the emergence of new ways to organize an industry's value chain? Why is it beneficial for firms to outsource services in addition, or as an alternative, to their own operations? Or, in ecological terminology, what

enables the "speciation" of new vertical participants along an industry's value chain (Jacobides and Winter 2005)? And in a global context, what drives the recent growth of services offshoring? In economics, this question has led to several research streams within the wider field of the theory of the firm. We discuss in the following subsections three interrelated streams of research that shape the core topics and challenges of that realm (see Table 2).

Insert Table 2 here

Property Rights Theory: Services as an Alternative to Ownership

Property-rights theory was developed for the analysis of economic issues arising from shared use of assets. Previous research (e.g., Ehret and Wirtz 2010; Wirtz and Ehret 2009) has suggested that a property rights theoretical framework can enhance our understanding of the concept of non-ownership. According to property rights theory, ownership refers to a set of distinct rights (Furubotn and Pejovitch 1972): (i) the right of the owner to use an asset (*ius usus*), for example using a machine for manufacturing, (ii) to change its form and substance (*ius abusus*), for example changing parts and components of the machine, (iii) to obtain income or other benefits (*ius fructus*), for example leasing the machine to a third party, and (iv) to transfer all residual rights through a sale or through rental agreements (*ius succesionis*). In the case of non-ownership, these four rights are shared among multiple parties instead of just a single party (i.e., the owner) (Haase and Kleinaltenkamp 2011; Moeller and Wittkowski 2010). Parties holding property rights to an asset can gain value by exercising specific rights (Ely 1995). More importantly, the nature and boundaries of a firm are defined by the bundle of ownership righty that a firm holds (Wirtz and Ehret 2009).

In the light of business services, a shift can be noticed from services generated internally based on company owned assets towards the use of outsourcing, for example, contracting with external service providers (Ehret and Wirtz 2010). This evolution of the

services sector can be explained by a reduction of two types of costs.

First, *measurement costs* accrue when determining the value contribution of collaborating service providers that contribute to a finished output. If the output of an activity can easily be measured and enforced, service contracts tend to be the more efficient solution. If measurement costs are high, or measurement is unfeasible at all, the firm is better off by assuming ownership and managerial authority (Barzel 1997). Thus, vertical integration is favored in early stages of a business model's life cycle in order to explore value mechanisms. Once critical value drivers are well understood and performance measures are easily established and maintained the share of externally-sourced services rises. That is, external sourcing of a service becomes a feasible option when managers are able to define performance indicators, establish measurement methods and enforce contract terms.

Second, *governance costs* can arise from investments in specialized assets such as a highly customized machine. In the hands of external service providers these assets become a powerful negotiation weapon, enabling them to hold-up their clients and re-allocate profits (Ehret and Wirtz 2010). For that reason US car companies used to insist on owning machines and equipment operated by their suppliers (Hart 1995; Williamson 1971). However, as soon as an asset has lost its unique character, external sourcing is favored if efficiency gains can be obtained.

In summary, the property rights theory provides a theoretical explanation for the value contribution of business service providers. That is, they support their clients to economize on the costs of ownership. By outsourcing certain tasks to specialized service providers, manufacturing firms can concentrate on their core activities, improving production and focusing on innovation. The important synergies between services and industry become more apparent as economies develop. As assets tend to lose their unique character in maturing industries, there is a greater incentive for firms to fragment production processes and to

geographically delocalize them (cf. Nicita et al. 2013). The guiding principle implied by the property rights theory suggests that firms should assume ownership over specific assets and crucial, but hard to measure elements of the value creation process (Ehret and Wirtz 2010). However, if this is not the case, external service providers are typically in a better position to maximize value creation and service outsourcing becomes efficient, leading to the rise of service economies.

The Resource-based View: Division of Labor and the Role of Management

While property-rights theory ascribes management a rather passive role (e.g., supervision of employees, efficient allocation of rights), the resourced-based view highlights the goal of achieving growth as a driving factor of the division of labor between firms, emphasizing a more active role of management in shaping the position of a firm (Prahalad and Hamel 1990; Wernerfelt 1984, 1995). The resource-based view (RBV) of the firm started with work of Penrose (1959) and Selznick (1957) with the notion of distinctive competencies. According to the RBV, the firm is as a collection of tangible and intangible resources, including all assets, capabilities, organizational processes, as well as information and knowledge. Those resources are bundles of different uses, and consequently, resource value is derived from the services they are applied to (Penrose 1980). In the pursuit of growth, firms differentiate themselves by developing unique capabilities for the use of resources. This perspective makes management (in a broader sense) the decisive force that differentiates a firm and affects its growth.

In the context of business services, RBV provides important implications (Ehret and Wirtz 2010; Wirtz and Ehret 2009, 2013). A company's ability to exploit new entrepreneurial opportunities is constrained by its managerial capacity. In order to free scarce management capacity, the firm delegates certain management responsibilities and functions to external service providers. The vision of RBV is the intelligent enterprise that frees its management

capacity for the pursuit of the most promising and profitable business opportunities, while delegating complementary activities to a network of external service providers (Quinn 1992). Accordingly, companies should design their boundaries in order to focus on their core competencies. In summary, RBV contributes to explain the rising importance of business services by highlighting managerial capabilities as a crucial factor that limit a firm's growth opportunities. RBV thus provides a compelling argument to empower the management of client companies to focus on their most promising activities by releasing them from non-core responsibilities (Ehret and Wirtz 2010).

The Entrepreneurial Theory of the Firm: Shifting Boundaries of the Firm

While both theories discussed so far provide explanations for the increasing demand of business services, these approaches have limitations with regard to the evolution of service economies. Property-rights theory highlights the efficiency criteria (i.e., measurement and governance costs) affecting boundaries of the firm. As such, it only provides a "snapshot" view, thereby neglecting dynamic factors that might explain shifts in ownership or new modes of division of labor between firms (Ehret and Wirtz 2010). RBV focuses on the role of managerial capabilities in developing growth opportunities. While this approach is better equipped to deal with dynamic factors and change, it lacks a valid criterion for defining boundaries of the firm within business networks (cf. Dyer and Singh 1998; Ghosh and John 1999). One research stream that is able to understand the evolution of business services is the entrepreneurial theory of the firm that unifies important elements of the property rights theory and RBV from a dynamic perspective.

The entrepreneurial theory of the firm holds that entrepreneurship is a crucial element in explaining the nature and boundaries of the firm. For example, Jacobides and Winter (2005) argue that understanding the concept of entrepreneurship provides a better explanation of how and why firm and industry boundaries change. Broadly conceived, entrepreneurial

action is concerned with the exploration and exploitation of profit opportunities arising from economic disequilibria (Kirzner 1997; Shane and Venkataraman 2000). Research in economics (e.g., Baumol 1993; Kirzner 1973; Lewin 1999) and strategic management and organization (e.g., Alvarez and Barney 2004; Foss et al. 2007; Shane and Venkataraman 2000) has highlighted how entrepreneurs shape organizations and how organizations support entrepreneurial action. For example, Kirzner (1973) argues that entrepreneurs are agile agents who identify opportunities ignored by other market participants and take action to profit from them. Entrepreneurs enhance the range of business opportunities in several ways: (1) by mobilizing capital and knowledge, and (2) by developing efficient routines by the means of business organization within a firm (Klein 1999; Mises 1949).

While everyone has some potential for acting entrepreneurial, economic organization can provide a substantial leverage for entrepreneurial activities. In a nutshell, entrepreneurs are the "lifeblood" directing firms to profitable opportunities, while firms provide entrepreneurs with capital, resources and an infrastructure that can enhance and even create entrepreneurial opportunities and their exploration (Foss et al. 2007; Lewin 1999; Sautet 2000). For example, Jacobides (2005) demonstrates how vertical disintegration transformed a set of fairly similar, integrated players to a host of vertically co-specialized entities (e.g., mortgage brokers and bankers, asset holders, specialized service providers) that would coexist with the more integrated firms. This process was partly driven by market entrants who quit their existing employers to serve the emerging needs of customers. It was also partly driven by "entrepreneurial participants who stood to win from the new, vertically co-specialized structure, such as technology vendors and infrastructure providers" (Jacobides and Winter 2005, p. 4). That is, entrepreneurs understood the potential value from re-organizing the mortgage banking sector finding new ways of leveraging existing skills and improving the vaue chain.

This entrepreneurial perspective has decisive implications for role of ownership and property rights in shaping growth of service outsourcing and industry fragmentation, and the demand for business services. That is, ownership and property rights are tools for shaping and directing entrepreneurial processes like experimenting, exploring and exploiting business opportunities (Foss et. al. 2007). Firms use them in order to direct resources to expected higher valued uses, based on an entrepreneurial vision and a business model that contains a unique value proposition (Foss et al. 2007). Equity-ownership is the instrument to bear the risk entailed in entrepreneurial projects and thus is used to attract resources for the deployment of these projects (Knight 1921). Therefore, ownership is shaping the scope of entrepreneurial projects that are feasible for a firm, subsequently setting its boundaries on resource markets. Consequently, resources and activities not related to firm-specific business opportunities should be sourced from external service providers. Firms can use business services to shift entrepreneurial uncertainty to an external provider who is better positioned to manage the contingencies of a certain activity, for example, market research, applying specialized management methods, or maintaining a resource like a machine (Wirtz and Ehret 2009). With the help of business services, equity can be applied to the most promising elements of the value creation process. That is, each company can scale its activities in line with what it sees as its most promising business projects. As such, survival and growth of a firm rely on a continuous adaptation of its contractual boundaries to explore and exploit business opportunities (Foss et al. 2007).

One distinctive contribution of the entrepreneurial theory of the firm is to highlight how the market process shapes the division of labor between companies (Kirzner 1997). Companies strive continuously for new business opportunities in the face of commoditization and erosion of profits. Contracting and outsourcing are means to (1) shift commoditized assets and activities to specialized service providers, and (2) to get access to new

opportunities created by new specialized external firms. Global business services are designed to capture additional value through different types of arbitrage: (1) labor arbitrage, e.g., savings from lower-cost resources in different locations throughout the world, (2) skill arbitrage, i.e., value derived from access to higher-skilled labor (implied at lower costs/ economically feasible costs), and (3) pure arbitrage, i.e., value derived from the ability to shift work from one location to another to take advantage of shifts in the factors of production (Huber and Danino 2012).

Generally, market opportunities for business services arise in the upstream areas of the value chain, supporting entrepreneurial downstream firms in their re-organization process (Wirtz and Ehret 2013). For example, the advancements in information technology has created a myriad of different data formats and communication protocols. Many enterprises, even large ones, lack the capability to handle this problem appropriately, and face difficulties to cost-effectively solve it in-house (Gillai and Kim 2007). Business service providers can provide solutions reducing a firm's complexity and coordination problems across the supply chain, thus allowing the firm to free resources for new innovations.

While firms started with the outsourcing of routine operations, they are now in the position to use external service providers for almost any function, operation or asset-class. As a result, firms are transforming into "intelligent enterprises" (Quinn 1992) that can rent almost every conceivable activity or asset type as a service, while focusing on areas of un-served needs of customers or underused potential of resources. Globally organized service providers can even now "mix and match" the available service delivery capacities from different countries, both inside and outside their own group, combining them in a variety of ways, to deliver the required products and services to their customers (Ramioul and Kirschenhofer 2005).

In summary, the contribution of the entrepreneurial theory of the firm allows to

capture the dynamics of economic re-organization. New modes of division of labor result in new cost structures highlighted by property rights theory, providing new frameworks for cultivating core competencies, emphasized by the resource-based view.

SUMMARY, CONCLUSIONS AND IMPLICATIONS

Over the past decades, the progressive liberalization of cross-border transactions, dramatic advances in information and communications technologies, and improvements in transport logistics and services have provided firms with greater incentives to fragment production processes and to geographically delocalize them (Nicita et al. 2013). These developments have lead to the widespread outsourcing and offshoring of services we see today. That is, supporting and ancillary operations which were previously done in-house (intra-firm) are increasingly delegated to outside contractors (Eurostat 2009; Woelfl 2005). In recent years, outsourcing and offshoring have expanded to a range of knowledge-intensive business services such as IT applications, finance and accounting, engineering, research and development (R&D), human resources and customer contact centers (Massini and Miozzo 2010). Driven by the need to lower costs and access talent, companies now look beyond the boundaries of the developed world, even for high-end knowledge- and technology-intensive services (Gereffi and Fernandez-Stark 2010).

For a long time, economic theory suggested that the impressive productivity gains in manufacturing tend to be shifted to rather unproductive investments in consumer services (see Baumol's and Fuchs' attempts to interpret the productivity slowdown that occurred in developed countries; e.g., Baumol 1967; Fuchs 1977). However, these arguments are no longer tenable in the context of global business services. While business services were not very significant as a separate industry in the 1980s (Abramovsky et al. 2004), the business service sector has grown rapidly in most of the OECD countries over the last decades. Statistically, knowledge- and technology-intensive business services now show the strongest

growth in terms of value added, economic productivity and employment of all sectors.

The non-ownership perspective of services is a new starting point that helps to explain why economies shift from goods-intensive to service-intensive modes of value creation. Theories of the firm provide a deeper understanding of the value resulting from the disintegration of value chains and the division of labor between organizations. The three approaches we discussed reveal fundamental value propositions for the evolution of global business services (Ehret and Wirtz 2010; Wirtz and Ehret 2009) (see Table 2):

- The dramatic development of information technologies has significantly lowered transaction costs of non-ownership offerings, which are to a substantial extent information and measurement costs. Thus, from the perspective of property-rights theory, the rise of service trade following the adoption of e-Business comes at little surprise. We can expect a similar effect from political initiatives that harmonize trade-regimes and integrate trade-regions.
- The rise of global business services further enhances opportunities for companies to broaden their resource-base. Business services allow companies to focus on unique opportunities while tapping into the globally best and most efficient service providers. From a strategy perspective, service sourcing will be a key challenge in maintaining a viable resource base. From a provider perspective, the globalization of services opens up both a boon of opportunities as well as increased competition.
- To the extent that markets are being integrated, firms will face harder times to legitimize their existence. When virtually any business activity can be sourced around the globe, only firms that provide unique value will survive. At the same time, opportunities for service providers arise on the global level. As a result, firms need a fine radar to navigate opportunities and exploit them, as proposed by the entrepreneurial theory of the firm.

Future economic growth in developed as well as in developing countries will be driven by their competitiveness in services rather than in manufacturing. Furthermore, globally organized service providers will become an important catalyst for the continuous globalization of service economies. That is, the growing interconnectedness of companies, resulting from the trend of outsourcing business services, will accelerate the globalization process (Ramioul and Kirschenhofer 2005). And, as products become more complex, value chains are likely to become longer, meaning that intermediaries (e.g., brokers, advisers, staff recruiters) in the supply chain of knowledge- and technology-intensive business services become more important and more fragmented, perhaps based in different regions, countries and even continents (Huws and Dahlmann 2004).

In conclusion, the service sector in general and business services in particular play an important role in raising the productivity of the manufacturing sector and other sectors in a globalized post-industrial economy. This applies especially to business services as they provide key intermediate inputs to manufacturing and other sectors, including information and communications technology, business process outsourcing, logistics and supply chain services, finance, legal services, human resource recruitment and marketing services (e.g., Noland et al. 2012; Wirtz and Ehret 2013). Rather than handling tasks internally manufacturing firms may find it more cost-effective to outsource these tasks and their related assets and people to firms that specialize in them. Thus, business services should no longer be viewed as peripheral activities supporting the manufacturing sector but as the backbone of our global post-industrial economies.

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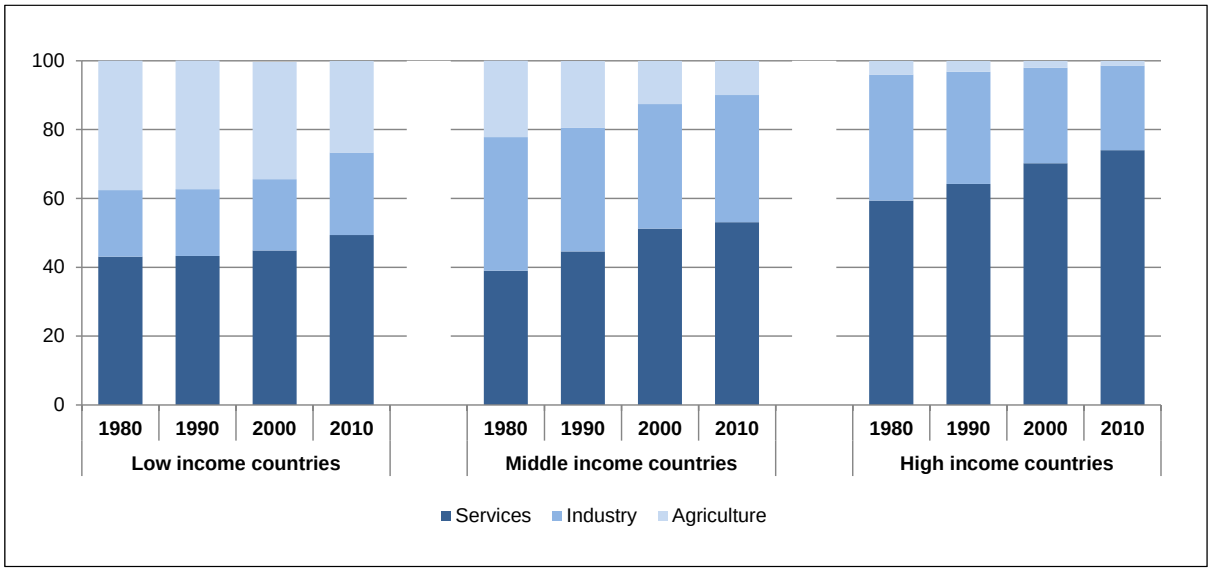
Figure 1: Sectoral development of world economies: Service sector value added in percent of GDP



Note: Economies are divided according to 2012 gross national income (GNI) per capita, calculated using the World Bank Atlas method. The groups are: low income, $1,035 or less; lower middle income, $1,036 - $4,085; upper middle income, $4,086 - $12,615; and high income,$12,616 or more (The World Bank, http://data.worldbank.org/about/country-classifications).

Source: Authors' calculations based on data from the World Bank. If you would like to use the underlying data or use the figure, please contact Sven Tuzovic.

Figure 2: Enterprises can hire almost any conceivable business activity, capability and asset class as a service

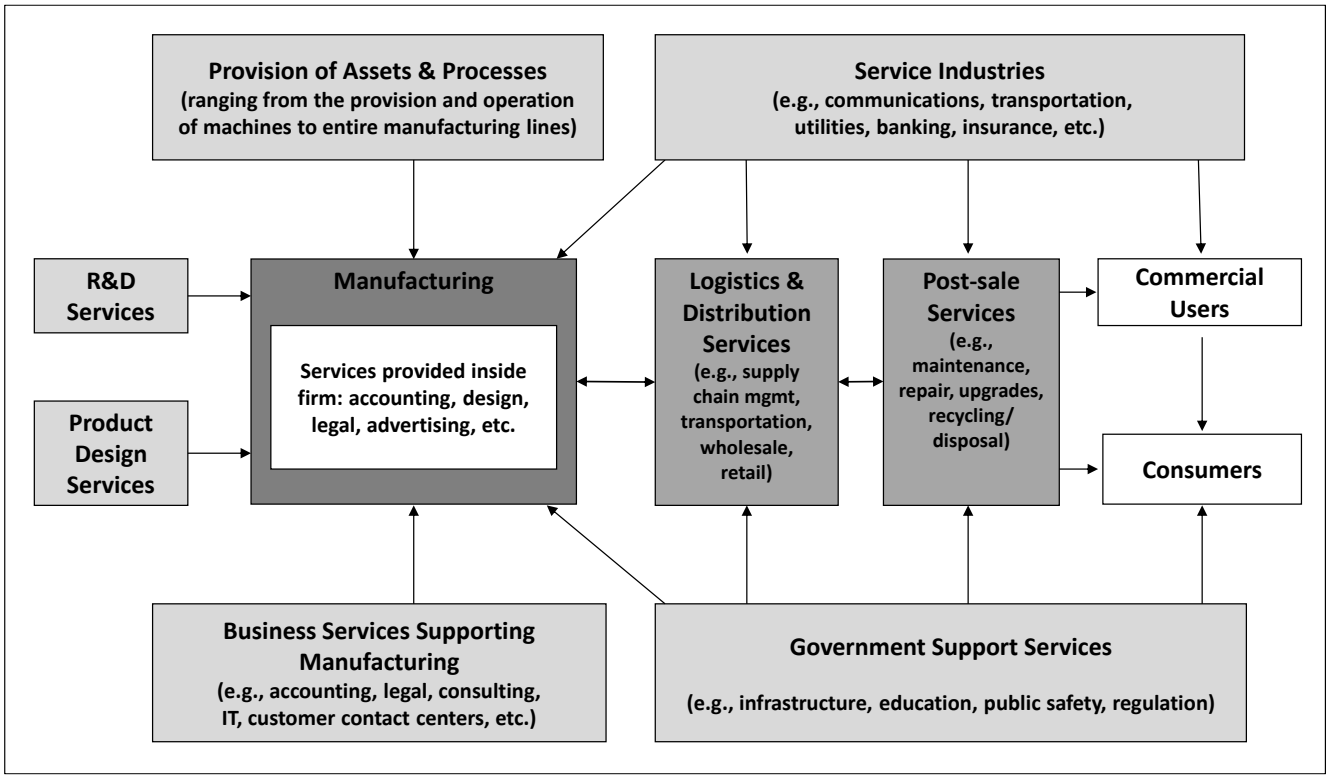
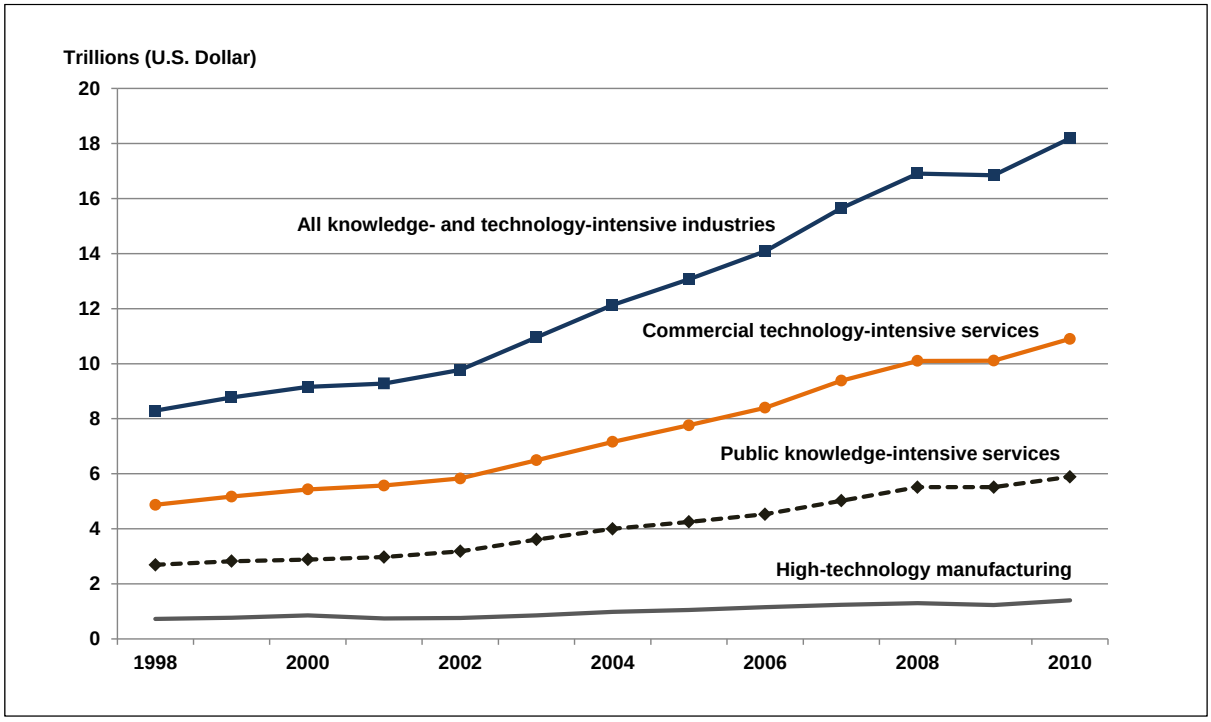


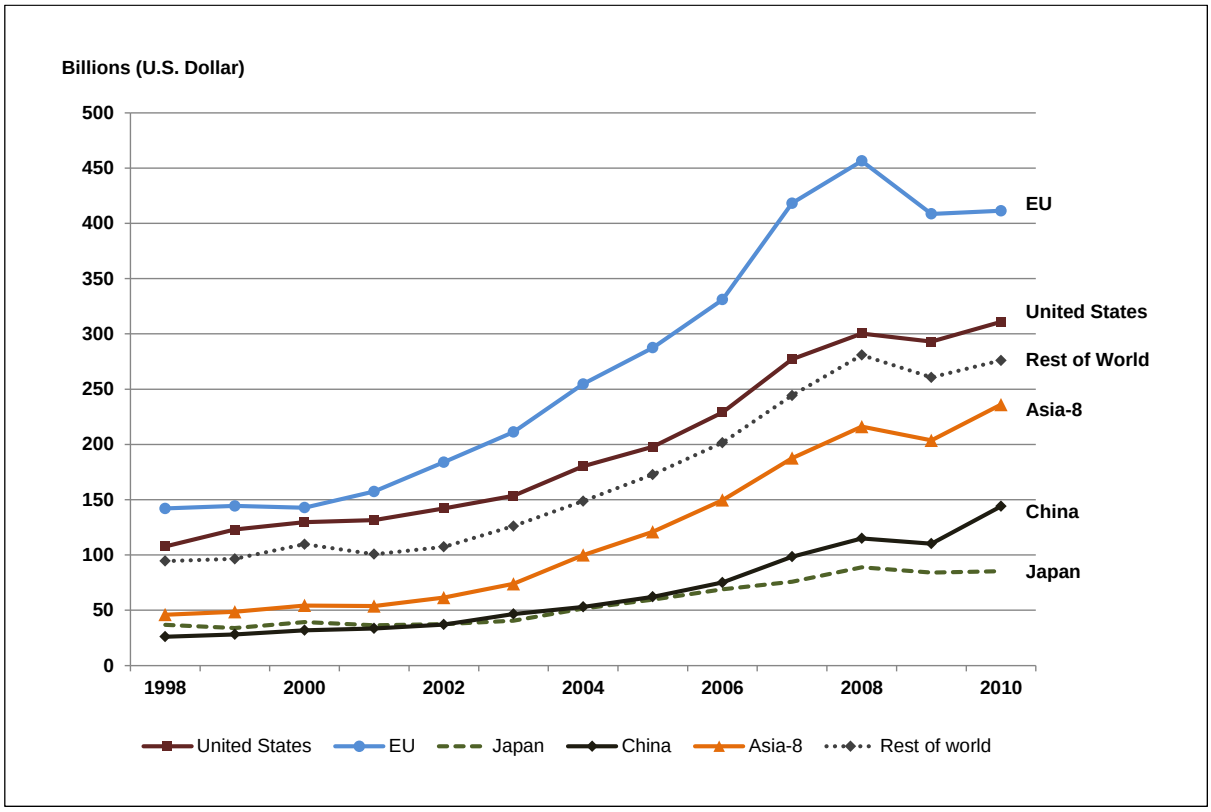
Figure 3. Global value added of knowledge- and technology-intensive industries (1998-2010)



Notes: The Organization for Economic Co-operation and Development (OECD) has identified ten categories of industries that have a particularly strong link to science and technology, collectively referred to as *knowledge- and technology-intensive (KTI)* services (NSF 2012). Of the ten categories, five are in knowledge-intensive (KI) service industries which can be subgrouped into *commercially-traded KI services* [i.e., (1) financial, (2) business, (3) communications services] and *publicly regulated or provided KI services* [i.e, (4) education and (5) healthcare services]. Furthermore, they include five high-technology manufacturing industries that spend a large proportion of their revenues on R&D [they are: (6) aircraft and spacecraft, (7) pharmaceuticals, (8) semiconductors, and (9) communications equipment and (10) scientific (medical, optical, and precision) instruments].

Source: Authors' calculations based on data from the National Science Foundation. If you would like to use the underlying data or use the figure, please contact Sven Tuzovic.

Figure 4: Exports of commercial knowledge-intensive services by selected regions and countries (1998-2010)



Notes: As classified by the OECD, commercial knowledge-intensive services include financial, business and communications services (NSF 2012). Public knowledge-intensive services (such as education and healthcare services) are not included in this chart.

Source: Authors' calculations based on data from the National Science Foundation

If you would like to use the underlying data or use the figure, please contact Sven Tuzovic.

"

Figure 5: Business models in the outsourcing and offshore services industry

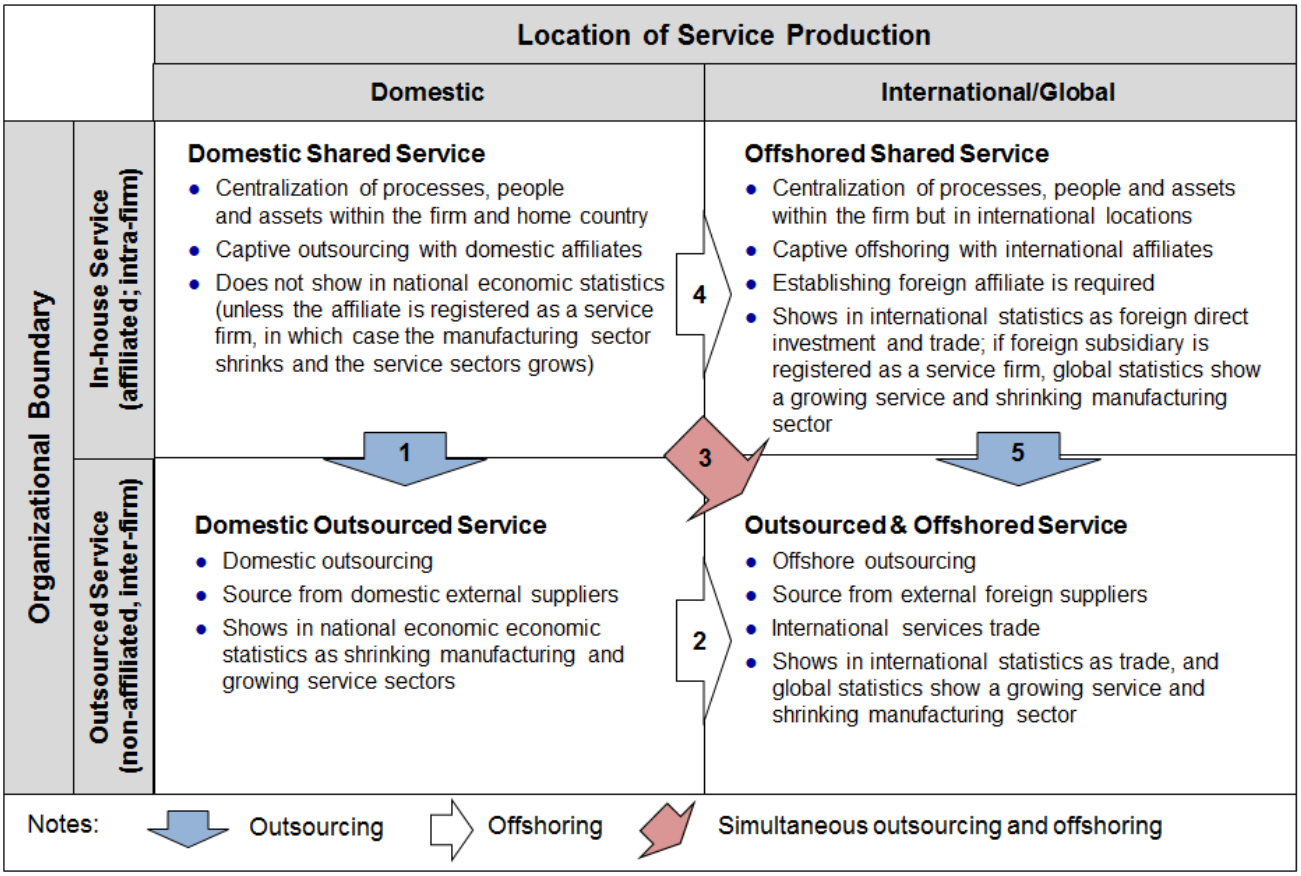
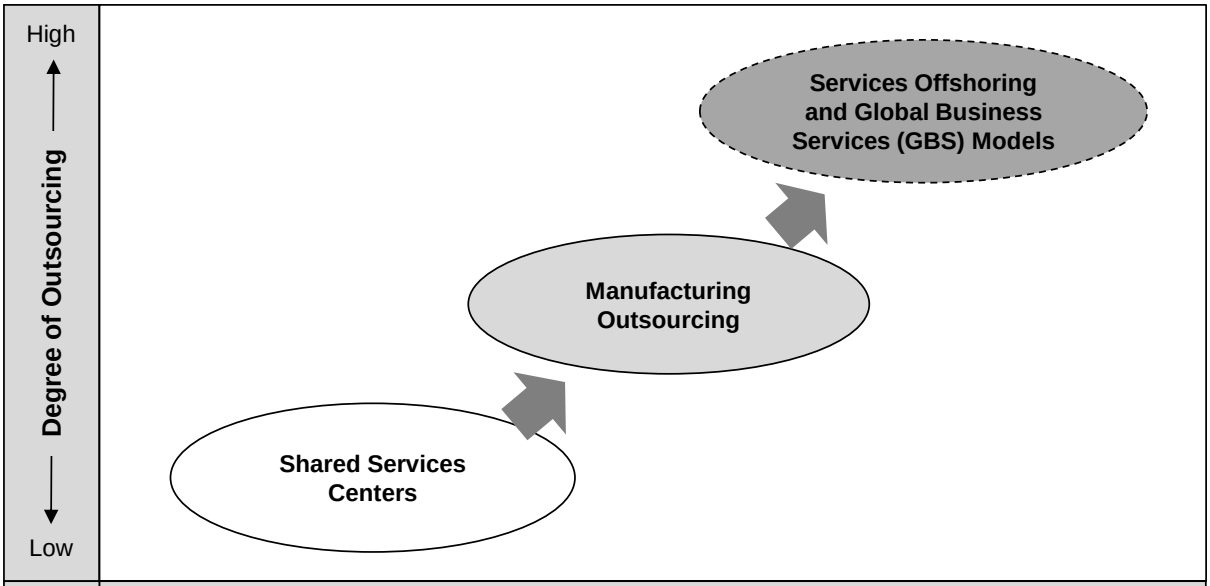


Figure 6: The evolution and key dimensions of global business services models



Low ← **Degree of Offshoring and Globalization** → High

Essential characteristics of GBS: The four "Multis"

Low	Multi-function	High
Low	Multi-region	High
Low	Multi-sourcing	High
Low	Multi-business	High

Key dimensions of fully integrated GBS models

Dimension	Shared Services (domestic & offshore)	Outsourcing (domestic & offshore)	Global Business Services (GBS)
Objective	Cost savings, improved efficiencies and capabilities	Cost savings, efficiencies, compliance, agility, and scalability.	Cost savings, efficiencies, compliance, service focus, agility, scalability, and innovation
Scope	Typically 1 to 2 non-core processes; may include critical business processes	Typically 1 to 2 non-core processes; 1 or more providers; Typically does not include critical business processes	Many processes and many providers; combination of shared services and outsourcing/offshoring; not just transactional activities; includes also business critical processes
Agility	Agile as it relates to in-scope processes	Limited by the scope of the contract with provider	High, because coordinated centrally
Governance	Variety of approaches ranging from siloed to coordinated	Frequently managed as separate contracts with each external provider	Centralized and coordinated
Culture	Practice is to establish a service-focused culture	Typically approached as managing a third-party contract	Transformational change; Service-focused culture is fundamental; work as a single team regardless of shared services or outsourcing

Table 1: Overview of the business services sector

NACE code	
NACE code 72: Computer and related activities	
72.1	Hardware consultancy
72.2	Software consultancy and supply
72.3	Data processing
72.4	Database activities
72.5	Maintenance and repair of office, accounting and computing machinery
72.6	Other computer related activities
NACE code 74: Other business activities	
74.11	Legal activities
74.12	Accounting, book-keeping and auditing activities; tax consultancy
74.13	Market research and public opinion polling
74.14	Business and management consultancy activities
74.2	Architectural and engineering activities and related technical consultancy
74.3	Technical testing and analysis
74.4	Advertising
74.5	Labor recruitment and provision of personnel
74.6	Investigation and security activities
74.7	Industrial cleaning
74.8	Miscellaneous business activities

Notes: NACE is the European standard classification of productive economic activities used by Eurostat. In the United States, the North American Industry Classification System (NAICS) is the standard used by Federal and State agencies in classifying industries and business establishments (United States Census Bureau). NAICS distinguishes six different business service industries: Information (51), Finance and Insurance (52), Real Estate and Rental and Leasing (53), Professional, Scientific, and Technical Services (54), Management of Companies and Enterprises (55), and Administrative, Support, Waste Management and Remediation Services (56) (for more details see http://www.census.gov/eos/www/naics/).

Table 2: Theories of the firm and the rise of business services

Theory of the firm	**Summary and value propositions of business services**
Property-rights theory	– Highlights efficiency conditions (i.e., measurement and governance costs) in a snap-shot and determine the efficient division of labor between provider and client. – Focuses on the costs of ownership as a crucial factor driving the growth of business service providers as more efficient asset owners. – Business services reduce the costs of asset-ownership.
Resources-based view	– Highlights how business services can free scarce management capacity from non-core activities to focus on high value-creation opportunities. – Provides an explanation for strategic shifts of a firm's boundaries towards market opportunities.
Entrepreneurial theory of the firm	– Proposes the firm as a tool for entrepreneurs to explore and exploit business opportunities, highlighting ownership and contracts as tools for entrepreneurs to assume control of their most promising projects through equity. – Suggests that the use of services outsourcing along the value chain is an important way to navigate organizational boundaries to most promising business opportunities. – Business services enhance entrepreneurial agility and leverage.

Appendix 1: Sectoral developments of the world economy: Value added in percent of GDP

	Agriculture				Industry				Services			
Country / Region	**1980**	**1990**	**2000**	**2010**	**1980**	**1990**	**2000**	**2010**	**1980**	**1990**	**2000**	**2010**
Argentina	6.4	8.1	5.3	11.4	41.2	36.0	29.4	34.2	52.4	55.9	65.2	54.4
Australia	7.9	4.9	3.5	2.3	37.8	31.2	26.9	19.8	54.3	63.9	69.6	77.9
Brazil	11.0	8.1	5.6	5.3	43.8	38.7	27.7	28.1	45.2	53.2	66.7	66.6
Canada	4.3	2.9	2.3	1.9[b]	36.9	31.3	33.2	32.0[b]	58.8	65.8	64.5	66.1[b]
China	30.2	27.1	15.1	10.1	48.2	41.3	45.9	46.6	21.6	31.5	39.0	43.4
France	4.9	4.2	2.8	1.8[a]	31.8	27.1	22.9	19.1[a]	63.3	68.7	74.2	79.2[a]
Germany	2.4	1.5	1.3	0.9	41.1	37.3	30.5	27.9	56.5	61.2	68.2	71.2
India	35.4	29.0	23.1	18	24.3	26.5	26.1	27.6	40.3	44.5	50.8	54.4
Italy	6.0	3.5	2.8	1.9	38.1	32.0	28.2	25.3	55.9	64.5	69.0	72.8
Japan	3.1	2.1	1.5	1.2	39.0	37.5	31.1	27.5	57.9	60.4	67.4	71.4
Russia	NA	16.6	6.4	4.0	NA	48.4	37.9	35.4	NA	35.0	55.6	60.6
Singapore	1.6	0.3	0.1	0.0	36.2	31.9	34.5	27.5	62.3	67.8	65.4	72.5
Spain	7.2	5.6	4.4	2.7	36.6	33.6	29.3	26.1	56.2	60.8	66.3	71.2
Turkey	26.5	18.1	11.3	9.6	23.8	32.2	31.5	26.9	49.7	49.8	57.2	63.4
United Kingdom	2.1	1.8	1.0	0.7	40.7	33.8	27.3	21.6	57.2	64.4	71.7	77.7
United States	2.9	2.1	1.2	1.2	33.5	27.9	23.4	19.8	63.6	70.1	75.4	79.0
European Union	4.6	3.8	2.4	1.6	37.2	33.3	28.2	25.6	58.2	63.0	69.4	72.8
OECD members	4.4	3.2	2.0	1.5	35.8	31.8	27.3	24.2	59.8	65.0	70.6	74.3
Low income	37.7	37.5	34.0	26.8	19.3	19.4	20.7	23.7	43.1	43.3	44.9	49.5
Middle income	22.3	19.3	12.6	9.8	38.8	36.0	36.2	37.1	39.0	44.6	51.2	53.0
High income	4.0	3.2	2.0	1.4	36.6	32.6	27.8	24.6	59.4	64.2	70.2	74.0
World	7.3	6.2	4.0	3.1	36.9	33.1	29.3	26.9	55.8	60.7	66.7	69.9

Notes: NA = Not Available; [a] 2009 data; [b] 2008 data.

Source: Authors' calculations based on data from the World Bank. If you would like to use the underlying data or use the figure, please contact Sven Tuzovic.

Appendix 2: Sectoral developments of the world economy: Employment in percent of total employment

	Agriculture				Industry				Services			
Country / Region	**1985**	**1995**	**2005**	**2011**	**1985**	**1995**	**2005**	**2011**	**1985**	**1995**	**2005**	**2011**
Argentina	0.3[d]	0.6	1.1	1.2	30.9[d]	27.0	23.5	23.8	56.6[d]	72.0	75.1	74.4
Australia	6.2	5.0	3.6	3.3[b]	27.4	22.8	21.3	21.1[b]	66.5	72.2	75.1	75.5[b]
Brazil	28.6	26.1	20.5	17.0[b]	22.1	19.6	21.4	22.1[b]	49.3	54.3	57.9	60.7[b]
Canada	5.1	4.1	2.7	2.4[c]	25.4	22.0	22.0	21.5[c]	69.5	74.0	75.3	76.5[c]
China	62.4	52.2	44.8	36.7[a]	20.8	23.0	23.8	28.7[a]	16.8	24.8	31.4	34.6[a]
France	7.1	4.9	3.6	2.9	31.6	26.9	23.7	22.1	61.3	68.1	72.3	74.6
Germany	NA	3.2	2.4	1.6	NA	36.0	29.8	28.3	NA	60.8	67.8	70.1
India	NA	60.4[e]	55.8	51.1[a]	NA	15.7[e]	19.0	22.4[a]	NA	23.7[e]	25.2	26.6[a]
Italy	11.0	6.6	4.2	3.7	33.0	33.7	30.8	28.5	56.0	59.8	65.0	67.8
Japan	8.8	5.7	4.4	3.7[a]	34.9	33.6	27.9	25.3[a]	56.0	60.4	66.4	69.7[a]
Russian Fed.	NA	15.7	10.2	9.7[b]	NA	34.0	29.8	27.9[b]	NA	50.0	60.0	62.3[b]
Singapore	0.7	0.2	1.1	1.1[b]	35.2	31.0	21.7	21.8[b]	64.1	68.8	77.3	77.1[b]
Spain	18.3	9.0	5.3	4.2	31.7	30.2	29.7	21.8	49.8	60.8	65.0	74.0
Turkey	45.0	43.4	29.5	24.2	20.0	22.3	24.8	26.5	35.0	34.3	45.8	49.4
United Kingdom	2.5	2.0	1.3	1.2	31.2	27.3	22.2	19.1	64.9	70.2	76.3	79.0
United States	3.1	2.9	1.6	1.6[a]	28.3	24.3	20.6	16.7[a]	68.6	72.9	77.8	81.2[a]
World	NA	40.4[e]	35.1	30.4[a]	NA	22.7[e]	21.9	24.4[a]	NA	36.3[e]	42.9	44.9[a]

Notes: NA = Not Available; [a] 2010 data; [b] 2009 data; [c] 2008 data; [d] 1984 data; [e] 1994 data.

Source: Authors' calculations based on data from the World Bank. If you would like to use the underlying data or use the figure, please contact Sven Tuzovic.

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