

Chapter 6.4

Innovation Risks of Outsourcing within Knowledge Intensive Business Services (KIBS)

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ABSTRACT

The United States and European economies have witnessed an enormous increase in the amount of specialized business services, which now provide critical inputs to firms in all sectors. It is this area of the economy which has witnessed huge expansion and development. KIBS include traditional professional business services such as accountancy and law, but also a new generation of KIBS such as IT expertise and internet development. Coupled to this growth has been an increase in the level of outsourcing. Outsourcing was originally confined to peripheral business functions and mainly motivated by a cost saving logic, but has now developed into a routine strategic management move that affects not only peripheral functions but the heart of the competitive core of organisa-

tions. This chapter analyses previous research and adopts a conceptual perspective in investigating the innovation-related risks to the organisation that can arise from strategic outsourcing. It uses the example of KIBS outsourcing to highlight the increased risks that arise from a move from traditional to strategic outsourcing and discusses some measures that managers can take to attempt to control these risks.

INTRODUCTION

Occasionally one would be forgiven for thinking that in these advanced developed economies services had replaced all manufacturing activities, and there had simply been a huge growth in coffee bars, smoothie bars and hair salons. In the most

advanced service economies in the world such as the USA and UK, services now account for up to three-quarters of the wealth and 85% of employment (Tidd and Hull, 2003). Within the EU services now account for 60% of GDP (Eurostat, 2006). The term knowledge based economy has been coined to characterize some of the main changes in the development of economies over the past twenty years. Similarly, the influence of technology in general and information communication technologies in particular cannot be overstated. In virtually all industries there has been a huge growth in specialist knowledge and skills being made available to firms. For example in civil engineering and architecture, where previously much of the input came from the architect now the architect employs a range of specialists from: fire engineering; acoustic engineers; lighting designers, etc. A new range of disciplines have emerged offering specialist knowledge and skills. This has been replicated in virtually all industries (Gann and Salter, 2003).

The development of these economies has led to a massive increase in the amount of specialized business services which now provide critical inputs to firms in all sectors. It is this area of the economy (US and Europe) which has witnessed huge expansion and development. It is not simply that people are spending more time and money in hair salons (though that may also be true). It is these knowledge intensive business services (KIBS) which are the key behind the development of the service side of the economies. KIBS include traditional professional business services such as accountancy and law, as well as services that have a scientific and technical knowledge base such as IT/IS (Miles, 2003; Alvesson, 2004). Other examples include a new generation of KIBS. For example the provision of specialist services to the Oil industry has led to huge growth for Halliburton and Schlumberger, the world market leader for oil services. Indeed, while the share prices of Exxon and Shell have doubled over the past four years

the share price of Halliburton and Schlumberger has tripled (Financial Times, 2007).

The growth in information communication technologies during the 1980s and the development of the internet in the 1990s and into the 21st century has led to enormous sums of money being spent by firms in order to ensure that they are equipped to compete. In addition, the introduction of some of these business systems such as Enterprise Resource Planning systems (ERP) have led to significant reductions in costs and improvements in efficiency. If one then adds to the KIBS the huge growth in entertainment industries including the gaming industry (Xbox, Nintendo, Playstation, PC games, etc), the new on-line gambling industry (Party-Gaming, Gaming Corporation) and the more recent social networking industry (which includes Myspace, Bebo and Mypages) one begins to recognize just how much change and growth there has been to economies over the past ten years.

The service sector is vast and it varies considerably from public services, in the form of state funded education for 97% of children in the UK, to specialist business services in the form of Internet web site design and maintenance. Each sector of the service economy (such as leisure, charities, public services, financial services) has its own set of specific challenges. Yet at the same time the distinctions between some of these sectors is blurring. Some charities and not-for profit organisations are offering their services to compete with the private sector. Health care provision is a prime example. Similarly some public funded organizations such as the BBC offer its services in the commercial world and generate large revenue streams. Table 1 offers a classification of services and includes professional business services, such as accountancy and public services such as libraries. This overview helps demystify the service notion. It clarifies the different sectors within services and illustrates the different challenges facing each sector.

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