

Summary Report of the study on globalisation and innovation in the business services sector

Firms are increasingly outsourcing business services... The business services sector has been growing rapidly in most OECD countries. Software development, R&D, and other knowledge-intensive service activities -which include legal, advertising and recruitment services- are fundamental for the operation of a modern business. In the past, these activities were largely conducted in-house given their strategic importance and their firm-specific nature. Increasingly however, firms have been buying knowledge-intensive services from external sources in order to take advantage of economies of scale and scope. ... including to foreign providers. This has led to a jump in international trade in business services, especially since the mid-1990s and in part as a result of the liberalisation efforts agreed at the time of the Uruguay Round. Although OECD countries are still the main origin and source of trade on business services, firms are increasing offshoring a range of business functions to countries with relatively lower labour costs and a talented workforce. This process has contributed to economy-wide productivity growth... Because of many industries use business services as inputs, access to an efficient business sector is essential for economy-wide productivity growth. Although analysis of macro-level data does not yet show an increase in productivity in the sector, partly as a result of measurement problems, several firm-level studies have confirmed the positive spill-over effects of business services. ... and helped accelerate and deepen the innovation process. As the pressure to innovate increases and the means of doing so become more complex, there is a growing tendency to outsource knowledge input for innovation. This has sped up the shift of the innovation process from a closed to an open model. Business services can play several "supporting" roles in the innovation process: they can be a source of innovation if they play a role in initiating and developing innovation activities in client organisations. Alternatively, they may be facilitators of innovation if they support an organisation in the innovation process. Similarly, business service firms can be carriers of innovation, playing a role in transferring existing knowledge among or within organisations, industries or networks, so that it can be applied in a new context. To realise the full potential of the sector, the regulatory framework should not be overly restrictive. To seize the benefits of the strong forward linkages and this emerging innovation paradigm, government should provide an enabling business environment. The regulatory framework is especially important in this regard and should be made more flexible. Knowledge-intensive business services are subject to a wide range of regulations in most OECD countries, but more often than not, these regulations could be streamlined without jeopardising service quality. Indeed, evidence shows that the stringency of some service regulations is negatively correlated with productivity growth. Common industry-wide standards can be beneficial... The issue of standards is of particular relevance in the business services sector. Although there are potential costs in standardisation, widely-accepted and balanced standards can increase market transparency and competition, by facilitating switching between suppliers. Harmonised standards across countries can also reduce trade barriers, which tend to be inherently higher in most service sectors compared to the cross-border exchange of goods. Finally, standards can benefit service providers by enabling them to focus on the internal process of services production and obtain economies of scale. ...together with an IPR regime that favours access to knowledge... The IPR regime should be efficient and balance incentives to innovate with consideration about access to knowledge. Issues to be considered include exemptions and limits on the use of IPR, such as research exemptions and rules on fair use. It could also include greater efforts to enhance the economic use of IPR, for example through good licensing practices, cross-licensing and patent pools. ...and the efficient reporting of intellectual assets. Business services providers and most of the companies that make intensive use of their services depend heavily on investment in intangibles, such as training, customer relationship management, brand image, internal organisation, investment in software and ICT. Reliable information about the intangible assets of companies is needed to avoid inefficient resource allocation and facilitate innovation. Intellectual assets-intensive companies feature specific operational and business risks and this can have a major impact on the value of the companies concerned and therefore information about intellectual assets needs to be disclosed.

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