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The role of the multinational firms on the producer services sector: repercusions for peripheral regions.

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Abstract:

The spatial polarisation of services is one of the explanations for present regional disparities. A new international division of labour based on Business Services has appeared, in which multinational firms play an important role. This paper aims to examine the repercussions of the behaviour of firms in the advanced business services (ABS) sector on peripheral regions. Particularly, we analyse the case of Andalusia – a region situated in a “central area”, the European Union, but characterised as peripheral-. Using direct research – interviews carried out with a representative sample of enterprises -, we study the impact of these multinational firms, not only from the point of view of the companies which offer these services in Andalusia, but also from the point of view of demand – enterprises which use these services -.

Multinational firms   Business advanced services   Peripheral regions   Uneven regional development   Andalusia

A. INTRODUCTION

Economies at the end of the 20th century have been characterised as “services economies”, due to the importance of these activities, not only quantitatively in terms of production and employment, but also qualitatively, in terms of the organisation and management of production. The tendency of these activities to be concentrated in the main economic areas – the so-called “central areas” - is one of the elements that is related to the present inequalities in regional development, since it represents a vehicle of dependence and a restriction on the diffusion of innovation and on self-sustained development in the periphery. A new international division of labour based on the business services[1] has emerged in recent decades, in which multinational firms play an important role.

In this paper, we try to analyse the repercussions of the behaviour of these kinds of firms in the advanced business services (ABS) sector on peripheral regions. Specifically, we study the situation of Andalusia – a region located in a “central area” (the European Union) but characterised as a peripheral region-. We try to analyse not only the direct impacts of the multinational firms through the supply of advanced services – the companies which offer these services - but also the effects from the point of view of demand – companies that use these services-.

With this aim in mind, we carried out a survey, interviewing two groups of enterprises, as we will explain in the point referred to methodology. On the one hand, from the point of view of supply we used a sample of one hundred companies that are suppliers of ABS in Andalusia. On the other hand, from the point of view of demand, we found a representative sample of companies belonging to the agrofood industry.

The industrial structure of Andalusia – a determinant element in the demand for these services - is characterised by its duality, in the sense that on the one hand there are an important number of SME-s (in many cases with less than 10 employees), that represent the autochthonous industrial sector, and, on the other hand, there is a group of large companies belonging to multinational groups. This duality is observed in the structure of the ABS sector too.

We question whether the presence of these multinational organisations, in terms of enterprises offering ABS, as well as demanding them, have induced effects on the local economic structure, through the establishment of links with local enterprises, or if, on the contrary, these multinationals tend to demand more sophisticated services available outside the region, helping to increase the degree of exterior dependence of the Andalusian economy.

B. METHODOLOGICAL ASPECTS.

The survey carried out consisted in a series of interviews to two groups of enterprises: one of suppliers and other of demanders. From the point of view of supply, first of all we have to define what we consider advanced business services.

Business services have been defined by several authors, each of them making emphasis on some feature that makes them different from other service activities. All definitions share that they are considered as services aimed at meeting the intermediate demand. Thus, for example Soy (1997) stated: "*Services aimed at businesses and professionals are part of the production services aimed at meeting the intermediate demand, which are "inputs" for the production of goods and other services, which participate as indirect elements in the production process."*

Business services cover a very heterogeneous set of activities, some of them with very diverse behaviours. In recent years, and due mainly to the influence of the New Information and Communication Technologies, there has been a distancing of those activities more closely connected to the use of these technologies, which are the ones that have shown a more dynamic behaviour, and that have been included into a group labelled as "advanced business services" in order to distinguish them from the so-called "traditional" ones.

There are different criterion to assign the real services of intermediate consume to the category of <u>traditional</u> business services or <u>advanced</u> business services. According to Martínez, Rubiera and al. (2002), a criterion will consist on to value the <u>technological intensity</u> and the <u>education level</u> required in the service doing. Following this criterion it will be <u>advanced</u> the services that require a high technology or a high education of their staff, or both at the same time. Another criterion have into account the <u>function developed by these activities.</u> According to this criterion they are <u>advanced</u> the activities that are contracted by the enterprises to adapt themselves to the change, the innovation, the technological development or the internationalisation, as well as to incorporate the more advanced methods of management, production or market research.

Following a research carried out in Andalusia by the Promotion Institute of Andalusia (Instituto de Fomento de Andalucía IFA) (Seravan'97, 1997), we selected a group of 27 types of these services, classified in 6 function areas:

A. HUMAN RESOURCES.
   1. Selection and Evaluation.
   2. Formation.

B. PRODUCTION.
   3. Methods and time.
   4. Costs studies.
   5. Industrial desingn.
   6. Engineering of equipment goods.
   7. Quality management.
   8. R&D advice.

C. MARKET.
   9. Image and advertising.
   10. Graphic design.
   11. Market studies.
   12. Exterior trade advice.
   13. Logistics advice.

D. MANAGEMENT.
   14. Enterprises organisation.
   15. Economic and financial advice.
   16. Management control.
   17. Strategic planning.

E. COMPUTER SYSTEMS.
   18. Computing system implantation.
   19. Computing programming.
   20. Telematic system implantation.
   21. Electronic data processing and data base.

F. STUDIES AND PROJECTS.
   22. Urban and territorial consulting.
   23. Branches location.
   24. Evaluation/correction of environmental impact.
   25. Engineering civil/industrial, energy and fallout.
   26. Investments and viability studies.
   27. Social-economics studies.

From the enterprises of this sector included in the catalogue elaborated by this Institute (IFA, 1999), we selected by means of a shared sampling system – maintaining the proportion of enterprises by size and geographical location - a sample of 100 enterprises (the number total of enterprises included in the catalogue is 345).

From the point of view of demand, we selected, by means of a random sampling system, from a directory of enterprises provided by the Andalusian Statistical Institute (Instituto de Estadística de Andalucía, IEA), a sample of 200 companies belonging to the agrofood industry (the number of enterprises included in the directory is 2000). Two factors influenced the selection of this particular sector in the industry: on the one hand, it is one of the three main sectors indicated by the suppliers as demanding these services; and on the other, it is one of the most representative sectors in the Andalusian economy – it represents 14.95% of employment, 11.51% of the GAV at market prices, 43.43% of exportation and 16.48% of importation-.

C. MULTINATIONAL FIRMS AND FOREIGN DIRECT INVESTMENT.

Multinational firms and state-nations are linked in the complex globalisation process. This interaction is causing the increasing geographical complexity of the global economy. Multinational enterprises (MNEs) are responsible for a disproportionate part of employment, production and world trade[2] – a third of world trade is made inside the MNEs, the so-called intra-firm trade (Hernández, 2000)-, which further reinforces their power in global markets. In 1997, the subsidiaries in foreign countries were responsible for estimated sales of 9.5 billion dollars, which corresponds to 7% of the global GPB of that year, and represents a real growth of 40% with respect to 1980 (Machado, 2001).

Table 1: The weight of non financial multinationals.

(data in billions dollars)

	1982	1990	1999	99/82[(1)]
Dates of the World				
♦ GDP of the world	10.6	21.5	30.1	6.3
♦ World-wide goods and services exportations	2.0	4.2	6.9	7.6
Dates of the 63,000 multinationals				
♦ Subsidiaries sells abroad	2.5	5.5	11.6	9.4
♦ Subsidiaries exportations abroad	0.6	1.2	3.2	10.3
♦ GPD of subsidiaries abroad	0.6	1.4	3.0	25.9
♦ Employment of the subsidiaries abroad (millions)	17.4	23.6	40.5	5.1
Dates of the 25 first multinationals			1.2	
♦ Subsidiaries sells abroad			2.4	
♦ Employment of the subsidiaries abroad (millions)				

(1) Growing average rate null

Source: UNCTAD (2000), *World Investment Report.*

Today it is estimated that there are about 63,000 multinational firms, with 690,000 subsidiaries that keep up agreement with infinity of enterprises that depend directly or indirectly on them. These MNEs generate 10% of world-wide income through their foreign subsidiaries, and something more than 25% through their internal activity in the country of origin. It is calculated that the 25 biggest MNEs control more than 5% of total world-wide income, which is equivalent to the national income of Germany or nearly double that of the African continent. They also employ around six million people, including 2.4 million outside their country of origin. (Martínez Estévez, 2001). (See table 1).

The dominant countries in the world-wide economy are the preferable origin and destination of international investments[3]. The geographic structure of foreign direct investment (FDIs) has become more complex recently. 74% of the investment flows in 1999 were located in ten developed countries, and 80% of the investments that were directed to developing countries were concentrated in ten countries (Martínez Estévez, 2001). In this process, as we will see in our empirical analysis, small and medium enterprises are marginalised, being limited in many cases to depend on their powerful clients or suppliers, and running the risk of being absorbed by these large entrepreneurial conglomerates.

In the processes resulting from economic globalisation, and particularly the financial processes, FDI plays a determining role, whose vital importance has been seen since the first movements of internationalisation. Its role is as important in services as it is in the manufacturing sector (Driffield and Hughes, 2003). FDI is characterised by its high degree of concentration in advanced countries.

It has produced an intensification and diversification of FDI from manufacturing groups to services, a phenomenon that is explained not only by the importance of immaterial investments but also the growing complexity of production. The owner of the value chain plays an important role. The size of the groups constituted in some service branches, the amount of the capitals invested and the diversified ways in which internationalisation has occurred, are a potential menace to the industrial groups. The relationship between manufacturing and services is not peaceful.

FDI continues to be extremely important in extractive industries, but the emphasis has moved towards other sectors, and recently the service sector, especially in those activities related to trade, finance and business services, such as accounts, legal services, and so on. (Dicken, 1992).

Services MNEs have been particularly inventive in relation to the modalities of their investments abroad, being one of the first to experience some modalities of "new forms of investments", such as franchising. Deregulation and privatisation of the big civil services at the beginning of the nineties have been very important to FDI in services.

Few studies have been made of the limited induced effects of the decentralised installations of the large multilocational corporations – branch plants - on peripheral regions[4]. These analyses show, as in the spatial division of labour carried out by large companies, peripheral establishments have limited decision-making autonomy, are generally very vertically integrated, as well as oriented to mass production for markets which are not necessarily local, and maintain privileged relations with the head office. That is to say, there are few tendencies to develop active links with local economy, with independence in the phase of the productive process, with limited effects over the development of the local enterprise, over productive integration and over the diffusion of "know-how" in the region.

D. REGIONAL IMPLICATIONS OF THE INTERNATIONAL TRANSACTIONS OF SERVICES.

The process of growing internationalisation of service activities is not only a quantitative phenomenon. The interrelations with manufacturing products in the scope of the servo-industrial interactions and their incorporation in production, trade and communication networks are also important. This process of internationalisation raises questions in aspects related to the incidence of business services activities in economic development, and more concretely, in the regional development of the peripheral or depressed areas of western capitalistic countries (Zurbano, 1996).

Although the majority of business services have a very local character, among other reasons, because of the necessity of collaboration by the user in the production of these services, recently these services have also had to face up to the ever-growing requirements of internationalisation. In these services, internationalisation is registered by the presence of large MNEs of the sector, in a way that, the concentration of these activities in the international ambit can partly be explained by the strategies followed by these enterprises, which generally favour the markets where they find higher business expectation. In fact, each time the greater internationalisation of the business services' markets is affecting SMEs, in the sense that they are being forced to adopt competitive strategies and a policy of creating collaborative networks.

With respect to regional development, it is important to bear in mind the global effects of the different movements towards the internationalisation of services transaction. First it is necessary to insist that the internationalisation is due, in a great part, to the expansion of the multinational corporations, which have direct effects almost exclusively on the economic activity of the central metropolitan areas, where these companies are preferentially located. Among the indirect effects, are those related to the control and supremacy relations of the head offices located in the central regions, with respect to the branch plants. These head offices concentrate the functions of services more strategically and are closely linked to the use of new technologies.

Globalisation considerably increases the MNEs' power of negotiation in their relations with international, national or regional[5] actors, including governments. In this respect, recent globalisation contributes to the destructurisation of the existing productive systems to the benefit of large enterprises. These multinational firms are restructuring their productive processes at a global scale range, provoking serious impacts on the regions where they operate. In the "non central" regions, as has been demonstrated by MARTINELLI, 1989, in the Mezzogiorno case, the services establishments with external control are generally oriented towards the supply of specialised and sophisticated services. Meanwhile the establishments with local capital and control offer less advanced services.

Therefore, as Zurbano, 1996, said: "*as a consequence of the process of expansion of the large multinational firms, the majority of regions lose the capacity of obtain the initiative and the control of the supply of more strategic services. Next to this, the more peripheral regions without access to the networks of production and distribution of the more advanced services remain totally excluded of the possibility of access to the 'know-how' and to the technological and scientific knowledge that are joined to the expansion of the productive and commercial communication networks*".

Besides the expansion of MNEs, another factor in the growing internationalisation of the flows of services is the increasing commercialisation of services abroad. This is being intensified by the external liberalisation in the majority of western countries. This intensification of the commercialisation of services has a lower impact in the peripheral regions, due to the fact that they have smaller markets and poorer accessibility. This situation deepens the marginal situation of these regions with respect to the productive and commercial networks through which the technologic and innovative path and the international productive rule flow. However, there is the possibility of developing an endogenous supply if an adequate policy is instrumented. (Zurbano, 1996)

The elimination of commercial barriers and the limits to investment in services have direct and indirect effects at a regional scale. On the one hand, the elimination of restrictions to foreign investment in service activities provokes service firms to be more dynamic and innovative and the peripheral regions suffer directly as a result of the competence of services MNEs from the European central regions, the United States or Japan. Moreover, they can be participated by those foreign firms, all of which could cause a intensification in the loss of endogenous potential and the formation of economies of dependent services in the regions where a foreign controlled company exists. In this way, peripheral regions will not only lose direct ownership and control of strategies in those services enterprises, but also, indirectly, those establishments with foreign control will reduce the acquisition of internal local resources as they will be satisfied with resources from the central region where the head office is located. This has been demonstrated in the Mezzogiorno by Martinelli, 1989.

Possible positive repercussions derived from the elimination of commercial barriers, on the supply side, is the likelihood of a bigger possibility of commercial interchange and, in this way, increased exports. From the point of view of demand, consumers can take advantage of a competitive improvement via a decrease in prices, better quality or the possibility of access to new services.

Therefore, the importance of the internationalisation of service transactions on regional economic development should not be underestimated. As Zurbano, 1996, said, the liberalisation of service transactions, beyond the possibilities of generation of a strictly financial profitability, has a dual and contrasting repercussion. On the one hand, it makes possible access to the leading commercial and productive networks in the international ambit. This means, on a regional scale, the possibility of modernisation of the local productive system. But, on the other hand, this assumes the insertion of the regional economy in a dynamic of structural dependence with respect to the central areas.

E. THE GEOGRAPHIC CONCENTRATION OF HEAD OFFICES.

The place where head offices of large enterprises are located is not a trivial question. This localisation is closely related to the development processes of the areas where they are implanted and from where they receive their influences (Moreno and Escolano, 1992). Many empirical studies have been undertaken on this theme. Most of them have referred to the examination of the spatial distribution of the head offices of the larger enterprises (headquarters according to Dicken, 1992). However, others undertake analysis about heterogeneous spatial units – a country, a region, a county, and so on - with the aim of valuing control and its repercussions, derived from the installation of enterprises with head offices outside the selected area.

The tendency to territorially concentrate head offices is deduced from the first group of studies. In fact, a process which spatial manifestations are apparently opposite, but in fact are complementary, is produced: the territorial dissociation of the activities of management and production, and the high concentration of head offices in some places. The incidence of technological innovation stands out among the components that take part in the constitution of this territorial model. In this way, two fundamental types of geographical spaces have been constituted (Moreno and Escolano, 1992):

⇒ A low number of areas characterised by the accumulation of management activities and plentiful indirect work that constitute frameworks of networks at different scales in their actuation.

⇒ Abundant and disseminated locations in which transformation branch plants are installed. In these cases direct work predominates and there is limited management autonomy.

These centres of power of the large companies that work at a world-wide scale are located in regions belonging to the United States, Japan and Europe. The outstanding locations are those named by Sassen, 1991, global cities: New York, Tokyo and London.

At a national scale, contrasts also exist in the concentration and the variety of the spatial dispersion processes. Thus, in Spain, a deep polarisation of the head offices exists in Madrid (Moreno and Escolano, 1992). The same has been demonstrated in other places, such as in Brussels by Mérenne-Schoumaker, 1996) and in Denmark by Illeris, 1997.

The concentration of head offices in some cities, has, as a consequence, lend to an increase in regional disparities. In this way, this concentration produces an improvement and increase of all kind of services in the main central areas, due to the high demand that it provokes. Then, London, Madrid or Barcelona, for example, have a better endowment of airports, hotels, and all kind of infrastructures, than any other city.

However, in contrast, the areas without decision-making power in the multinational networks become, each time, more disconnected.

F. IMPACTS OF THE BEHAVIOUR OF MNES IN THE ABS SECTOR IN ANDALUSIA.

Three features of the Andalusian economy related to its underdeveloped situation are particularly relevant: a) its productive specialisation; b) the dependent and dualistic character of the regional manufacturing structure; and c) the underdevelopment of a crucial sector of contemporary economic development – advanced business services -.

The productive specialisation of Andalusia centres on the agrarian sector (Agriculture and Agrofood), Fishing and Mining. Services are the next sector. But Services stand up only as a result of the lack of weight of manufacturing activities (Delgado, 1995). In the Service Sector, Andalusia is specialised in trade, tourism and civil services. However its specialisation in those activities more interrelated with the productive system, especially with manufacturing, such as the financial services and business services, (for example engineering services, R&D, marketing) is below the national average. (Asián, 2000 and 2002).

Another feature that defines the Andalusian economic structure is its disjointedness. It should be understood, on the one hand, as disconnection among the different economic activities which operate in the Andalusian territory, and on the other, as juxtaposition of two parts, “modern” and “traditional”, that follow divergent ways (Delgado, 1995).

The strong dualism in size and productivity specialisation of Andalusian manufacturing base shows, on the one hand, the difficulties encountered by local capital in the accumulation and diversification process and on the other, the still limited inter- and intra-sectoral integration of exogenous and local operations.

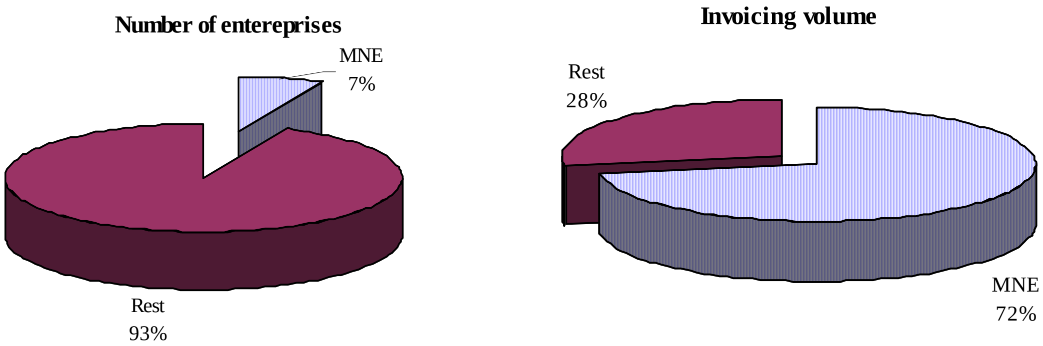
The evolution of the socio-economic structure of Andalusia, as many authors have shown (Delgado, 1981, 1993; Caravaca, 1985; Román, 1987, 1993; González, 1993), has been characterised by the increasing presence of the Service Sector, without passing by the creation of an Industrial Sector productive enough. Moreover, as Caravaca, 1985, said: *“the general features that define the Andalusian industry have contributed to constitute a productive structure in the region typical of underdeveloped areas and show the dependent character of its economy”*.

These general features of the Andalusian productive system, above all those referring to the dualism in the manufacturing enterprises, strongly determine the evolution of the ABS sector (see Asián, 2002), and the repercussions of the penetration of MNEs, in this sector as well as in manufacturing, main sector demanding ABS.

F.1. Multinational enterprises of advanced business services in Andalusia.

Enterprises that offer ABS in Andalusia are characterised by their heterogeneity (see Fig. 1). On the one hand, a consolidated group of enterprises exists, with a solid organic structure and a continued presence in the market. This group is normally made up of the enterprises with the largest dimensions, in terms of the number of employees as well as in invoicing volume, and that usually have their head offices outside Andalusia. On the other hand, there is another group of enterprises and professionals, which is the more numerous group, with a more unstable structure, and where numerous movements in terms of entering and leaving the market take place.

Fig. 1: Percentage of MNEs of ABS in number and invoicing volume.



Source: Author's elaboration from survey data.

In the group of large enterprises, the majority are MNEs, whose head office in Spain is located in Madrid or Barcelona, and that has a branch plant in Andalusia in order to be able to maintain closer relations with clients. In this case, the Andalusian establishments depend on the decisions taken in the head office – outside Andalusia - in the majority of their actuation – this occurs in 68% of cases -.

Although this group of MNEs in the ABS sector represents only 7% of the number of enterprises of this sector that actuates in this region, the group represents 72% of the invoicing volume. This fact gives us an idea of the importance of these ABS MNEs in

Andalusia, and about their possible repercussions on the productive structure in the region.

We have to bear in mind that these large enterprises have more possibilities to standardise their service production, exploiting in this way the economies of scope. Then, the small local enterprises face inferior conditions when they have to compete with larger enterprises. In many cases, large enterprises also have more possibilities to offer a wide range of services. For this reason, the demanding enterprises are loyal and prefer to ask the same enterprise for all the services they require.

75% of the interviewed subsidiaries depend on the head office in our country to supply a service. The regional establishment is limited to maintaining direct contact with the client, but the service's design and fulfilment is done in the head office. On the other hand, these subsidiaries in Andalusia have only the domestic market as the destination for their services. For that reason, they have a less strategic environment to the multinationals, compared with the subsidiaries that have access to a bigger number of countries.

F.2. The demand for ABS by the agrofood enterprises in Andalusia.

The size and characteristics of enterprises generally influence the use of business services. On the one hand, large enterprises have been able to create a division of labour, specialisation and multiproduct and multilocational strategies linked to the use of business services (Martinelli, 1991a). At the same time, they tend to produce them internally, having sections or departments dedicated to these functions. On the other hand, small enterprises use fewer advanced services, using only those that are compulsory to develop their activity, which they use to subcontract.

According to the data from the *Survey of Entrepreneurial Strategies*, the percentages of entities that use ABS vary depending on: whether they are enterprises with foreign or national capital, if the enterprises serve international markets, the activity sector and the size of the enterprises. Illeris, 1989, suggests that independent establishments tend to use services in the same way as branches of large enterprises. However, this does not happen in this way in the case of less developed regions. Martinelli, 1991a, demonstrates that small enterprises in the Italian Mezzogiorno use less services than the subsidiaries of MNEs. These also make use of services which are more diversified and advanced, as they import half of them from outside. In the Spanish case, Mañas, 1992, emphasises that enterprises located in the large industrial areas are those that make more use of these services compared to those that are outside these areas.

In our study, referring from the point of view of demand to a sample of enterprises belonging to the agrofood industry, we have divided the sample in two groups: small and medium enterprises that represent the autochthonous entrepreneurial group, and the large enterprises of the agrofood industry that operate in Andalusia. The large enterprises all belong to international groups. In this case, we have separated between two different situations: on the one hand, enterprises that originated in Andalusia and that nowadays belong to international groups – that is the case of Cruzcampo and Puleva - and, on the other, MNEs that have a branch or subsidiary in our region – for example, Cocacola -. Both groups, as we saw in a more extensive study about ABS made by Asián, 2002, exhibit behaviour that is different from the regional enterprises as a whole (SMEs). But, between them there are some differences too.

The majority of suppliers of these services in the case of the SMEs are located in the provincial capital. But this does not mean that they are always Andalusian enterprises, because they can be subsidiaries of MNEs located in the region. According to the type of service, "R&D advice" (100%); "Selection of employees" (50%); this from the Studies and Projects area (40% or more) and Advertising and so on (more than 30%) are those that have more suppliers from outside the region. (See table 2).

The percentage of suppliers from outside Andalusia is bigger in medium than in small enterprises, because small enterprises do not externalise and do not even use the services that come from outside suppliers. But, as we will see next, the large enterprises are more demanding of services from outside the region, because they focus their demand on enterprises that, although have a establishment in Andalusia, are not originally from Andalusia, or because they are provided from their head offices, which are located outside the region.

The percentage of use of these services increases considerably when we speak about enterprises belonging to international groups. That is due to the dimension of these enterprises and to the volume of their activities, and because, as they work in a context more exposed to the international competence rules, they are obliged to develop some activities not necessary in other cases. If the average percentage of use of these services is 42% (Asián, 2002), in the large enterprises belonging to international groups this percentage rises to 88%.

Table 2: Geographic origin of the suppliers of ABS in Andalusia According to the buyers size.

	Supplier origin			
	Inside Andalusia		Outside Andalusia	
	Medium	Small	Medium	Small
Selection and Evaluation	50	-	50	-
Formation	60	100	40	0
Methods and time	100	-	0	-
Costs studies	100	-	0	-
Industrial Design	80	-	20	-
Engineering of equipment goods	*	-	*	-
Quality management	100	100	0	0
R&D advice	0	-	100	-
Image and advertising	50	100	50	0
Graphic design	40	100	60	0
Market studies	43	100	57	0
Exterior trade advice	75	50	25	50
Logistics advice	100	-	0	-
Enterprises organisation	100	67	0	33
Economic and financial advice	83	100	17	0
Management control	100	100	0	0
Strategic planning	100	100	0	0
Computing system implantation	100	100	0	0
Computing programming	100	100	0	0
Telematic system implantation	100	100	0	0
Electronic data processing and data base	100	-	0	-
Urban and territorial consulting	60	-	40	-
Branches location	60	-	40	-
Evaluation/correction of environmental impact	75	100	25	0
Engineering civil/industrial, energy and fallout	60	100	40	0
Investments and viability studies	60	-	40	-
Social-economics studies	50	-	50	-

Note: *: No answer; - : Not used or not externalised.

Source: Author's elaboration from survey data.

A significant amount of the considered services, such as "Selection of employees", "Advertising", "Entrepreneurial organisation" or "Economic and financial advice", tend to be done internally. But, in the case of MNEs, that these services are done internally means, in the majority of cases, not in the establishment located in Andalusia, but in the head office elsewhere in Spain, normally in Madrid or Barcelona. Reasons of efficiency and lower costs influence in this actuation, but also reasons concerning to control and general policy of the group.

Table 3: ABS externalisation in enterprises belonging to international groups.

	Origin of service			
	Totally exterior	Totally interrior		Exterior and interior
		Head office	Stablishment	
Selection and Evaluation	**0**	**14,3**	**28,6**	**57,1**
Formation	**14,3**	**14,3**	**14,3**	**57,1**
Methods and time	**20,0**	**20,0**	**60,0**	**0**
Costs studies	**0**	**28,6**	**57,1**	**14,3**
Industrial Design	**0**	**28,6**	**57,1**	**14,3**
Engineering of equipment goods	**0**	**20,0**	**80,0**	**0**
Quality management	**0**	**25,0**	**50,0**	**25,0**
R&D advice	**40,0**	**20,0**	**40,0**	**0**
Image and advertising	**12,5**	**37,5**	**12,5**	**37,5**
Graphic design	**14,3**	**28,6**	**42,8**	**14,3**
Market studies	**12,5**	**25,0**	**25,0**	**37,5**
Exterior trade advice	**50,0**	**0**	**0**	**50,0**
Logistics advice	**0**	**0**	**0**	**100**
Enterprises organisation	**14,3**	**42,8**	**42,8**	**0**
Economic and financial advice	**12,5**	**50,0**	**37,5**	**0**
Management control	**14,3**	**42,8**	**42,8**	**0**
Strategic planning	**14,3**	**42,8**	**42,8**	**0**
Computing system implantation	**37,5**	**37,5**	**12,5**	**12,5**
Computing programming	**14,3**	**42,8**	**14,3**	**28,6**
Telematic system implantation	**28,6**	**42,8**	**14,3**	**14,3**
Electronic data processing and data base	**28,6**	**42,8**	**14,3**	**14,3**
Urban and territorial consulting	**50,0**	**33,3**	**16,7**	**0**
Branches location	**50,0**	**33,3**	**16,7**	**0**
Evaluation/correction of environmental impact	**60,0**	**40,0**	**0**	**0**
Engineering civil/industrial, energy and fallout	**50,0**	**33,3**	**16,7**	**0**
Investments and viability studies	**42,8**	**28,6**	**14,3**	**14,3**
Social-economics studies	**42,8**	**28,6**	**14,3**	**14,3**

Source: Author's elaboration from survey data.

In table 3 we can observe that numerous authors have signalled when they have studied the externalisation of these services. The size of demanding enterprises is a key determinant in the decision to externalise or internalise these services. Large enterprises tend towards the internalisation, as they have capacity to make these services internally, because they have specific departments directed to these functions and a staff suitable for it. In the table we can see that most of these services are achieved internally, or in the establishment considered, or in the head office if the enterprise has it outside Andalusia. The clearest exceptions are the services of “Exterior trade advice” and “Logistic advice”, and those from the Studies and Projects area.

As we said before, we have divided the large enterprises into two groups: those that only have a branch in Andalusia, because they are foreign enterprises that install a subsidiary in the region – Danone or Cocacola - or small enterprises that have been absorbed by MNEs – for example, Aguas de Lanjarón, that belongs to Danone group - and that have little autonomy; and those that traditionally were Andalusian enterprises, and although they belong nowadays to international groups, they continue to have their entrepreneurial structure in the region – such as the case of Cruzcampo -.

The situation indicated previously changes in some aspects, as we can see in table 4. For example, in the second commented case the services made internally are realised in the own establishment, whereas the enterprises from the first group very often appeal to the head office in Spain, located outside Andalusia.

Table 4: ABS externalisation according to type of enterprise and type of service.

	Origin of service							
	Totally exterior		Totally interior				Exterior and interior	
			Head office		Stablishment			
	Andalusian enterprise	Subsi-diary	Andalusian enterprise	Subsi-diary	Andalusian enterprise	Subsi-diary	Andalusian enterprise	Subsi-diary
Selection and Evaluation	0	0	-	25	67	0	33	75
Formation	33	0	-	33	0	0	67	67
Methods and time	0	50	-	50	100	0	0	0
Costs studies	0	0	-	50	100	25	0	25
Industrial Design	0	0	-	50	100	25	0	25
Engineering of equipment goods	0	0	-	50	100	50	0	0
Quality management	0	0	-	50	100	0	0	50
R&D advice	33	50	-	50	67	0	0	0
Image and advertising	25	0	-	75	25	0	50	25
Graphic design	33	0	-	50	33	50	33	0
Market studies	25	0	-	50	25	25	50	25
Exterior trade advice	50	-	-	-	0	-	50	-
Logistics advice	0	-	-	-	0	-	100	-
								0
Enterprises organisation	0	25	-	75	100	0	0	0
Economic and financial advice	25	0	-	100	75	0	0	0
Management control	0	25	-	75	100	0	0	0
Strategic planning	0	25	-	75	100	0	0	
								0
Computing system implantation	50	0	-	75	25	25	25	25
Computing programming	33	0	-	75	33	0	33	0
Telematic system implantation	33	25	-	75	33	0	33	0
Electronic data processing and data base	33	25	-	75	33	0	33	
								0
Urban and territorial consulting	67	33	-	67	33	0	0	0
Branches location	67	33	-	67	33	0	0	0
Evaluation/correct environmental impact	100	33	-	67	0	0	0	0
Engineering civil/industrial, energy and fal	67	33	-	67	33	0	0	0
Investments and viability studies	33	50	-	50	33	0	33	0
Social-economics studies	33	50	-	50	33	0	33	0

Source: Author's elaboration from survey data.

We are going to see if the externalised services are demanded from local enterprises or from large enterprises belonging to large groups of enterprises, generally international ones – such as Coopers&Lybrand, S.A.; Ernst&Young, S.A. or Price

Waterhouse -. As we can observe from table 5, the majority of services that the large enterprises demand to specialist ABS enterprises are demanded from non-Andalusian enterprises. These large enterprises, if they are demanding some services from external enterprises, do not to a local enterprise, and not even a regional enterprise. They prefer the large enterprises in ABS, with a known "name", and a supposed "prestige", which belong to international groups, and whose head office in our country, in nearly all the cases, are located in Madrid – the Spanish capital -.

Table 5: Geographic origin of the main ABS suppliers.

	Supplier origin	
	Andalusia	Outside Andalusia
Selection and Evaluation	**60**	**40**
Formation	**50**	**50**
Methods and time	**0**	**100**
Costs studies	**0**	**100**
Industrial Design	**33**	**67**
Engineering of equipment goods	**0**	**100**
Quality management	**0**	**100**
R&D advice	**0**	**100**
Image and advertising	**0**	**100**
Graphic design	**20**	**80**
Market studies	**14**	**86**
Exterior trade advice	**0**	**100**
Logistics advice	**0**	**100**
Enterprises organisation	**0**	**100**
Economic and financial advice	**0**	**100**
Management control	**0**	**100**
Strategic planning	**0**	**100**
Computing system implantation	**29**	**71**
Computing programming	**17**	**83**
Telematic system implantation	**17**	**83**
Electronic data processing and data base	**17**	**83**
Urban and territorial consulting	**0**	**100**
Branches location	**0**	**100**
Evaluation/correction of environmental impact	**25**	**75**
Engineering civil/industrial, energy and fallout	**25**	**75**
Investments and viability studies	**17**	**83**
Social-economics studies	**0**	**100**

Source: Author's elaboration from survey data.

Differences between subsidiaries of MNEs and those that were traditionally Andalusian enterprises are not significant. In any case, the enterprises that were Andalusian, for some services, such as “Selection of employees” or all of the Computer Systems area, demand in some cases from Andalusian enterprises, whereas the subsidiaries demand mainly from outside enterprises. The main difference between these two groups of enterprises is that the main part of services made internally, in the case of the subsidiaries are made in the head office, that is to say, outside the region.

G. CONCLUSIONS

One of the main features of globalisation is the mass exportation of capital, as FDI, or through the acquisition, absorption or merger of enterprises, that become managed by large multinationals. The number of MNEs has grown very quickly in the last two decades of the past century, and now a third of the actives of the world-wide private productive sector are below any control by MNEs. This means that millions of enterprises of all sizes, in all places, depend in some way on MNEs. To this we have to add the high degree of concentration of capital: 90% of MNE are concentrated in the United States, the European Union and Japan.

The behaviour of the subsidiaries of these MNEs is dependent on the articulation of the productive structure of different territories, having different repercussions in peripheral areas than in central ones. Thus, in peripheral regions, it is not common to activate links between these “subsidiaries” and local enterprises, which could be a factor of dragging to the autochthonous activities. However, as we have demonstrated in Andalusia, and for the specific case of ABS and the agrofood industry, the establishment of these subsidiaries have relations with the large enterprises, that is to say, also with the subsidiaries of MNEs of ABS.

To sum up, the ABS enterprises in Andalusia can be divided in two categories. A small number of medium and large enterprises, in which the majority are enterprises belonging to international groups, that represent 7% of the number of enterprises but 72% of invoice volume, and which have the necessary means to monopolise an important part of market and to incorporate the latest technological advances, and which have the possibility to offer personalised services, but have also the means to standardise. These enterprises have their head offices outside Andalusia. That means that the entrepreneurial decisions that affect this fundamental part of the sector are taken outside the region.

In general a correspondence is observed between the size of the suppliers and clients enterprises. Smaller enterprises usually make their demand to small supplier enterprises, and larger enterprises, included MNEs, ask for services to large enterprises of ABS.

The new context where the Andalusian economy is located, with a progressive exterior opening of the regional service market, which allow the expansion and the penetration of large MNEs, suppose a loss of the capacity to have the initiative and the control in the supply of strategic services.

To sum up, from the previously comments we can deduce that the situation of the sector of ABS in Andalusia is embarrassing. In order to avoid the possible disappearance of small local enterprises, as a result of their inability to compete with large foreign enterprises, they are necessary to improve a series of efforts from the local economies, that tend towards a competitive adaptation in order to survive in a globalised competitive environment.

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[1] Business services are services destined to the intermediate demand, that is to say, enterprises and organs of the Civil State. For a definition several papers can be consulted: Cuadrado and González, 1988; De Bandt, 1995; Rubalcaba, 1996; Barcet and Bonamy, 1997; Soy, 1997; Wood, 1997.

[2] At present, the volume of economic activity of the big multinational corporations exceeds those of nearly all countries, except the biggest. For example, General Motors, with 177,240 millions dollars of annual income (data at 22nd July 2002), has more or less the same income as Ireland, New Zealand and Hungary together (Karliner and Aparicio, 2002).

[3] From the one hundred biggest multinational firms, 27 are North-American, 11 are from the United Kingdom, 11 are German, 17 are Japanese, 13 are French, 5 are Swiss, 3 are Dutch, 3 are Italian, 3 are Swedish, 3 are Canadian, 1 is Belgian, 1 is Australian and 2 are from the third world: the Korean company Daewoo and the state of petroleum of Venezuela.

[4] For example Firn, 1975; Hoare, 1978, Britton, 1980; O'Farrell, 1980; Marshall, 1982 and 1988; Dicken, 1976 and 1992, Siler, Wang and Liu, 2003.

[5] Local governments offer different kinds of incentives to make the location of subsidiaries easier. In this way, multinationals represent a possibility for new economic perspectives: direct investment flows, technology transfer, regional development, and so on.