

Offshoring, Outsourcing and Services FDI in Europe's 'Old Periphery': Probing the Experience of Northern Ireland

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Offshoring, Outsourcing and Services FDI in Europe's 'Old Periphery': Probing the Experience of Northern Ireland

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Abstract

The host economy implications of service offshoring and the 'global shift in services' have recently been explored in the context of various emerging economies. This study extends the literature to lagging peripheral regions of developed economies, which have hitherto been largely neglected, via a case study of Northern Ireland, a region in north-west Europe. The 'structural characteristics' (subsidiary attributes and network position) of services FDI projects attracted to this region since the mid-1990s are examined and some of the direct employment impacts on the host economy are considered. Two main types of operation are identified among the leading foreign investors: captive centres performing various IT-related (and other support) activities for their US parent companies in the financial service industry; and contact centres operated by foreign third-party BPO vendors, serving corporate clients in (mainly) the UK & Ireland market. The regional employment impacts of these two groups of investors have been quite different, with the former group providing fewer but higher quality, better paid and more stable jobs than the latter but also contributing to a widening sub-regional division of labour. Services FDI has partially transitioned the region from its branch plant manufacturing past but with qualitatively mixed results. Overall, this case has some interesting features that provide new insights to the service offshoring literature.

Offshoring, Outsourcing and Services FDI in Europe's 'Old Periphery': Probing the Experience of Northern Ireland

1. Introduction

This chapter is concerned with foreign direct investment (FDI) related to service offshoring and outsourcing and its implications for host economies. Service offshoring involves the 'functional de-coupling' or 'unbundling' and geographical relocation by a firm of certain 'white-collar' service activities, processes, or tasks from one country to another country (Doh, Bunyaratavej, & Hahn, 2008; UNCTAD, 2004). This can be achieved via two main 'governance modes' – dubbed 'captive offshoring' or 'offshore outsourcing' (Sako, 2005; UNCTAD, 2004). Whilst service offshoring does not always involve FDI, inward investment projects can flow into host economies in two main scenarios: (1) When a foreign firm establishes a wholly (or partly) owned 'captive centre' in the host economy, which supplies services to the parent company's operations in its home country and/or its other foreign locations; (2) When foreign-owned third-party business process outsourcing (TP-BPO) vendors locate a service delivery centre in the host economy to supply services to clients or consumers in the local market and/or to 'export' services to clients or consumers in foreign markets. The notable global upsurge in such investments over recent decades has made service offshoring an important topic of interest to scholars and policy-makers working in the fields of inward investment and regional development (Hardy, Micek, & Capik, 2011; UNCTAD, 2004).

To date, the relatively small but growing literature on offshore services, FDI and regional development issues has primarily focused on host locations in emerging economies, such as India, the Philippines, South Africa and those in Central and Eastern Europe (Benner, 2006;

Dossani & Kenney, 2007; Hardy, Sass, & Fifekova, 2011; Kleibert, 2014, 2015; Micek, Dzialek, & Górecki, 2011; Pandey & Rogerson, 2012; Sass & Fifekova, 2011). However, this type of FDI project has also been attracted to various peripheral, lagging and ‘old industrial’ regions of advanced economies in Western Europe and North America – a fact barely addressed by the recent academic literature. This raises some interesting questions about the particular type of services projects that have been attracted to such regions and the implications of this new ‘round of investment’ for host region development. Since many of these regions previously received significant inflows of manufacturing ‘branch plant’ inward investment - a phenomenon that spawned a large body of research from the 1970s to the 1990s (Firm, 1975; Hayter, 1982; Sonn & Lee, 2012; Watts, 1981) – there are also interesting historical comparisons to be made between these earlier rounds of manufacturing investment and the more recent wave of service-related FDI.

This chapter seeks to address the aforementioned issues, and in doing so to extend the geographical coverage of the service offshoring literature, via an exploratory case study investigation of offshore service-related FDI in Northern Ireland – a lagging old industrial region in the periphery of the UK and Western Europe. The study is concerned to understand the particular types of services project attracted to this particular region and the ways in which these investments have (re)positioned the region within wider intra-firm and inter-firm networks and the international division of labour. It also seeks to consider some of the employment impacts of these projects on the host economy. Although, Northern Ireland has its own particularities – not least politically and socially – it is argued that this case study may have wider salience for regions with similar ‘contextual dimensions’; i.e. regions that have pursued, or plan to pursue, FDI-led economic strategies in an attempt to address lagging economic performance.

The chapter is organised as follows. The next section reviews of relevant prior literature on service offshoring and regional development and develops an analytical framework to guide the empirical analysis of the case. This is followed by an explanation of the study methodology and an overview of the case study region. The main empirical body of the chapter comprises three sections that: (1) Profile Northern Ireland's inward investment performance since the mid-1990s and chart the rise of services projects; (2) Explore the 'structural characteristics' of the leading offshore services investors in the region (including various subsidiary attributes and their network positions); and (3) Examine some of the employment impacts of these projects on the region. The chapter concludes by considering the implications of the study and making some suggestions for further research.

2. Relevant literature and analytical themes

2.1 Offshoring and outsourcing, services FDI and host economies

Service offshoring and outsourcing can be understood in the context of various changes in business strategy and organisation, technology and international political economy. In the contemporary global economy, multinational firms are under intense competitive pressures that require them to seek cost efficiencies and improve their capabilities right across the value chain (Yeung & Coe, 2015). In pursuing these twin imperatives, business scholars observe an increasing tendency - facilitated by technological advances and the rise of emerging economies - for firms to 'fine-slice' their value-chains and 'unbundle' or 'functionally decouple' discrete activities and tasks from other related parts of the value chain and relocate them – both geographically, via 'offshoring', and organisationally, via 'outsourcing' (Buckley & Strange, 2015; Contractor, Kumar, Kundu, & Pedersen, 2010). Hence, in the case of various 'corporate services', there has been an upsurge in both captive offshoring FDI

projects and also ‘offshore outsourcing’ to TP-BPO vendors, many of which have become sizeable multinationals in their own right (Gereffi & Fernandez-Stark, 2010; UNCTAD, 2004). From the point of view of host economies, this has presented a new opportunity to attract services FDI – in the form of captive centres and delivery centres operated by TP-BPO vendors.

A small but growing literature has sought to explore this phenomenon from the host economy’s perspective. Most authors agree that the primary drivers of this phenomenon are cost-reduction – i.e. efficiency-seeking - and accessing appropriately skilled labour – i.e. resource-/talent-seeking. Therefore, the key location attractors for host economies are said to include pools of available and cost-efficient skilled labour, state-of-the-art ICT infrastructure, suitable office space at competitive rates, a stable and conducive business environment, and cultural affinity with target markets and investor home countries (Breathnach, 2000; Dossani & Kenney, 2007; Pandey & Rogerson, 2012; Sass & Fifeekova, 2011). Some studies have highlighted the role played by local institutional actors in the process of strategic coupling with services production networks (Kleibert 2014; Hardy et al. 2011), a factor largely overlooked in the International Business literature (e.g. Doh, Bunyaratavej, & Hahn, 2008). Research evidence on the host economy impacts of offshore service-related FDI has produced mixed findings. Some authors have been broadly positive about the volume and quality of employment created in emerging locations (Benner, 2006; Kleibert, 2014; Sass & Fifeekova, 2011) whereas others have been more sceptical, highlighting concerns about job quality and durability (Breathnach 2000; Hardy et al. 2011). There is some agreement – at least in studies on Central and Eastern Europe - that the wider indirect employment, supply chain impacts and spill-over effects of such projects are likely to be quite limited, even by comparison to manufacturing branch plants (Hardy et al., 2011; Micek et al., 2011). Some authors have

observed that service offshoring investments may exacerbate sub-national inequalities, due to their tendency to gravitate towards larger urban centres with abundant labour supply (Pandy & Rogerson 2012; Hardy et al. 2011). Whilst the emergence of ‘tier-2’ offshoring destinations has also been documented in some countries (Kleibert, 2014), there is a suggestion that such locations might attract ‘lower quality’ operations (Kleibert, 2015).

2.2 Analytical framework development

Despite growing attention to service offshoring and outsourcing, there is no established, integrated framework for analysing this phenomenon from the host economy perspective. Therefore, to guide the analysis of the Northern Ireland case, a framework comprising 14 analytical themes relating to the study aims (grouped under three headings) was developed by synthesizing insights from the prior literature on FDI and regional development issues (e.g. Young, Hood, & Peters, 1994), a recent paper by Kleibert (2015) and the subsidiary management literature (Paterson & Brock, 2002) (Table 1, column 1).

The first six analytical themes describe various ‘subsidiary attributes’ (Table 1, heading I). The literature on FDI and regional development highlights the need to consider ownership issues, where a distinction can be made between domestic and foreign-owned operations and between multinational firms of different nationalities (Theme Ia), and the FDI entry mode, where a distinction can be made between greenfield and acquisition entries and between first round and repeat investments (Theme Ib) (Dicken, 2011; Sonn & Lee, 2012; Young et al., 1994). The offshoring literature highlights the importance of the ‘governance mode’, either captive offshoring and offshore outsourcing (Sako, 2005; UNCTAD, 2004). From the host economy’s perspective, a distinction should be made between captive centres and TP-BPO centres (Theme Ic). The type of services delivered by the subsidiary can be considered

against the categories outlined by UNCTAD (2004) – i.e. call/contact centre services, shared service centres providing back-office services and IT services - and Gereffi and Fernandez-Stark (2010) – i.e. information technology outsourcing, business process outsourcing and knowledge process outsourcing (Theme Id). An additional distinction can be made between subsidiaries that deliver services to private consumers and those that serve internal or business-to-business demand (Theme Ie). Finally, a subsidiary's scope can be described along various dimensions (Manolopoulos, 2008; Young et al., 1994); since 'product scope' makes little sense in the context of service offshoring, the key dimensions to consider are the breadth of the task mandate (akin to functional value-added scope) and geographical market scope (Theme If).

The second set of four themes relates to the 'network position' of the subsidiary (Table 1, heading II). The first analytical theme is the 'locus of control', with a distinction being made between local and non-local control, and also between internal and external control (Theme IIa). The 'branch plant economy' literature from the 1970s/1980s drew attention to the implicit risks to a regional economy arising from a high level of non-local control and dependence on distant decision-makers (Firm, 1975; Watts, 1981). The continued salience of this issue for service offshoring has been noted by Kleibert (2015), who also highlights another potentially important dimension. Due to the distinction between captive and outsourced governance models, there is an additional need to distinguish between internal (i.e. intra-firm) and external (inter-firm) forms of control. Captive centres are subject to non-local control by the parent firm's headquarters (as with a traditional branch plant) but delivery centres owned by foreign TP-BPO vendors are additionally subject to (local or non-local) external control, due to the inter-firm relationships between BPO vendors and their corporate clients. This latter form of control may be a particular concern for host regions due

to the cost-driven nature of many buyer-vendor BPO relationships. The second theme under this heading, drawing on the subsidiary management stream (Manolopoulos, 2008), concerns the subsidiary's role and competences within its wider network context (Theme IIb). Young et al. (1994) suggest a subsidiary's host economy impact may depend on its distinctiveness, with those having a unique role and specific competences being seen as more favourable than those with comparable 'sister' subsidiaries and generic competences. The concept of 'network embeddedness' from the global production networks literature is also relevant here (Henderson, Dicken, Hess, Coe, & Yeung, 2002). This suggests the importance of considering the subsidiary's position within the wider 'architecture' (structure and connectivity) of the (inter- and intra-firm) networks to which the subsidiary belongs (Theme IIc). Thus, Kleibert (2015) suggests 'network position' be gauged on a continuum from 'peripheral' to 'nodal'. Insights from the business literature suggest the 'strategic relatedness' between a subsidiary's competences and its parent company's goals might also be a relevant issue (Birkinshaw, 1996). A final concept that might be relevant to the discussion of a service subsidiary's network position is Mans' (2014) notion of an 'ego-network', which refers to the group of peer cities that occupy similar positions in the wider intra- and inter-firm corporate network. Thus, a subsidiary's ego-network may provide insights on the host region's role and position within the international division of labour (Theme IId).

The third part of the analytical framework concerns the direct employment effects of offshore service-related FDI projects (Table 1, heading III). Here, following the precedent of prior literature on FDI and regional development and more recent studies on service offshoring, the main sub-themes are: job quantity, job quality, job stability and longevity, and sub-regional equity issues (Young et al. 1994; Dicken 2011; Sonn & Lee 2012; Kleibert 2015; Hardy et al. 2011). For example, Sonn & Lee (2012) note that the 'branch plant' literature has been

concerned with the quantity of jobs, the stability of employment and the quality of jobs (gauged by the ratio of managerial and skilled jobs vs. manual, semi/unskilled jobs). Young et al. (1994) suggest that job quality might be gauged by the percentage of graduate jobs, skill levels (high vs. semi-skilled) and wages (above or below sectoral or regional average). According Gereffi & Fernandez-Stark (2010), wage levels may also provide the best available proxy for the level of value-added in a particular offshore service operation. Other potential employment-related effects on the host economy, including the upgrading of human capital and wage multiplier effects (Hardy et al. 2011; Micek et al. 2011) are acknowledged here but were beyond the scope of the present study.

< Table 1 about here >

3. Research design and data sources

Guided by the themes outlined above, the chapter employed a longitudinal case study approach to explore Northern Ireland's experience of offshore service-related FDI during the period from the mid-1990s to 2010 and beyond. The case study paid attention to the experience of the region as a whole but also, particularly, to 12 leading services foreign investors (embedded units of analysis), consistent with Markusen's (1994) notion of 'studying regions by studying firms'. These leading investors all undertook FDI into Northern Ireland and were engaged in the type of service activities and tasks identified by UNCTAD (2004) and Gereffi & Fernandez-Stark (2010). Note that domestic third-party outsourcing vendors operating in Northern Ireland (either locally or GB-owned) were explicitly excluded, as were captive operations operated by GB-owned companies and foreign investors that served the local Northern Ireland market only (e.g. retailers, banks, utilities). The case study was constructed from a number of different quantitative and qualitative secondary data sources,

with triangulation being used (where possible) to corroborate facts and interpretations and improve reliability. The chief secondary data sources used in the project were:

1. A spreadsheet containing details of all government-assisted job-related investment projects in Northern Ireland over a 15 year period between the years 1995/96 and 2009/10 (obtained from Invest NI, the regional development agency). This was thoroughly analysed to identify key patterns and trends and the most significant foreign investors.
2. A series of employment data, extracted from the Equality Commission for Northern Ireland's Annual Monitoring Reports, which identified the number employees at every major services inward investor in the region between 2000 and 2013. These were used to chart the growth (and decline) of individual subsidiaries and overall employment trends.
3. An archive of regional and local newspaper articles, going back to the late 1990s, relating to each of the major services inward investors in the region, which was compiled using keyword searches of the LexisNexis database (following the precedent of economic geographers like Horner & Aoyama, 2009, and Micek et al., 2011). This provided a rich qualitative dataset, which complemented the aforementioned quantitative datasets. Detailed analysis of this dataset was conducted using themes identified from the extant literature (including those listed in Table 1). Key events in the development of each subsidiary were identified and explored (within the constraints of data availability).

4. Northern Ireland: Attributes and prior inward investment experience

Northern Ireland is a small lagging region of the United Kingdom (population approximately 1.8 million), situated in the north-west European periphery. Based on 2011 Census data, its capital and main city, Belfast, had an urban area population of 280,000 and the wider Belfast metro urban area had over 580,000 residents (NISRA, 2015), making it the second largest urban area (after Dublin) on the island of Ireland and broadly comparable in size to British

cities like Sheffield, Bristol and Cardiff (ONS, 2012). The three next largest urban settlements (Derry/Londonderry, Bangor and Craigavon) each had 50-100,000 residents and a further 19 settlements had 10-30,000 residents but large parts of the region are rural (NISRA, 2015). The region has longstanding economic problems, by developed country standards, including relatively high unemployment, low economic activity rates, low wages, low productivity, an 'outdated' industrial structure and an over-dependence on the public sector (Barnett, 2009). The region had Objective 1 status (less than 75 per cent of the EU average GDP per capita) under the EU Structural Funding regime from 1988 until 2000, then 'transitional Objective 1' status from 2000-06. An additional factor are the 'Troubles' – a complex and deep-rooted 'ethno-political conflict' that lasted from late 1960s to late 1990s, which resulted in over 3,000 violent deaths and nearly 50,000 injuries (CAIN, n.d.). Since the late 1990s, however, there has been a high-profile 'peace process' resulting a period of relative political and economic stability, although various legacies of the past remain.

Northern Ireland has significant prior experience with inward investment, which has been an important plank of industrial policy since the late 1950s (Teague, 1987). 'Branch plant' manufacturing investment in sectors such as textiles and clothing, man-made fibres, food processing, engineering and auto components dominated inward investment into the region during the 1960s and 1970s. However, the quality and sustainability of these investments attracted some criticism and there were waves of branch plant closures and significant job losses, notably in the early 1980s (Fothergill & Guy, 1990; Teague, 1987). In the late 1980s and early 1990s, there was some success in attracting new projects in more high-tech sectors like aerospace, electronics and telecommunications equipment but Northern Ireland's overall inward investment performance during this period was inferior to other UK peripheral regions (Scotland, Wales, north-east England), and especially the Republic of Ireland (Crone,

1998). Since the beginning of the ‘peace process’ and the Belfast Agreement of 1998, local political and business elites have placed high expectations on inward investment promotion as an engine for regional economic restructuring/modernisation and job creation. Although efforts to stimulate indigenous industry and entrepreneurship have received greater attention in this era, FDI promotion and investor support has remained a key priority for the regional development agency, Invest Northern Ireland (Invest NI, 2008).

5. Northern Ireland’s inward investment experience since the mid-1990s: a shift towards services

Data from the spreadsheet obtained from Invest NI, which covered all government-assisted inward investment projects (including both FDI projects and investments from companies based in Great Britain) was used to profile Northern Ireland’s experience over the 15 year period between 1995/96 and 2009/10. A key insight was that, beginning in the late 1990s, Northern Ireland’s inward investment profile switched notably towards services projects and gradually (though not totally) away from manufacturing projects. Figure 1 depicts the annual number of ‘new jobs promoted’ in assisted inward investment projects by broad sector. New services jobs promoted increased notably from 1997/98 and exceeded the number of new jobs promoted in manufacturing in every year from 2000/01 onwards. Aside from a dip coinciding with the global recession around 2001/02-2002/03, the region typically attracted between 1,500 and 3,500 new services jobs promoted per year after 1997/98. Cumulatively, during the 15 year period to 2009/10, just under 30,000 new services jobs were promoted, in over 220 assisted projects, with the number of jobs and projects increasing in each of the three consecutive five-year sub-periods. To put these data in a wider context, Northern Ireland is said to have outperformed all other UK regions (though not the Irish Republic) in terms of jobs promoted in new FDI projects per capita between 2002/03 and 2007/08 (Barnett, 2009),

and it also attracted more knowledge-intensive (including ICT) FDI projects and business services FDI projects in proportion to its gross value added than any UK region outside south-east England during 2005-09 (fDi Markets, 2011). The Invest NI dataset reveals one further clue about the type of services projects and jobs being attracted to the region during this period. Invest NI categorised services projects into two broad segments, dubbed ‘software and computer services’ and ‘business and financial services’ (predominantly comprising various contact centre and back office service operations). The former category accounted for 9,667 new jobs promoted in 121 projects over 15 years, whilst the latter accounted for 19,138 jobs in 89 projects (a residual category of ‘other services’ comprised a further 17 projects and 1,156 jobs promoted).

< Figure 1 about here >

6. Structural characteristics of the leading offshore service-related foreign investors

More detailed insights on the nature of the services FDI attracted to Northern Ireland are provided by taking a closer look at the 12 leading services foreign investors (which were identified based on their peak employment during the period 2000-13). These 12 firms accounted for 22% of all assisted services inward investment projects received by Northern Ireland between 1995/96 and 2009/10 (47 projects) and 41% of all new services jobs promoted in this period. In this section, the ‘structural characteristics’ of these leading services investors are examined focusing, first, on various subsidiary attributes and, second, on their network position (guided by the analytical themes developed in section 2.2).

6.1 Subsidiary attributes

Based on the various subsidiary attributes described in Table 1, it is possible to delineate four types of operation among the 12 leading foreign investors (Table 2). However, before looking more closely at these sub-groups, it is worth making some overall observations. Collectively, these firms are involved in a broad range of service tasks from across the categories identified by UNCTAD (2004) and Gereffi and Fernandez-Stark (2010), including inbound and outbound customer contact, back office administration, various IT support and software development tasks, and some knowledge-intensive shared services tasks. Both of the main governance modes identified in the literature are present, with five captive centres and seven outsourced BPO vendors. US firms are in a majority but the presence of French, Spanish, Japanese and Indian firms indicates a degree of diversity in the region's sources of services FDI. In terms of entry mode issues, note that seven of the firms first entered Northern Ireland as greenfield investors but five entered via acquisitions (of existing inward investors or local firms). An additional point of interest concerns the prevalence of repeat investment; each of the 12 leading foreign investors made multiple repeat investments in the region and they cumulatively accounted for over 40 assisted projects in the period under investigation. This shows that, far from being the end-game, an initial investment can often be the starting-point for an ongoing relationship between a foreign investor and the host economy.

< Table 2 about here >

Turning now to the four categories delimited in Table 2, the first sub-group comprises four US-owned subsidiaries that were initially (and in three cases primarily) involved in various IT, software or technology development and support activities (hereafter Group 1). Two of these subsidiaries, owned by insurance giants Allstate and Liberty Mutual, were initially

established in the late 1990s; according to news media coverage from the time, the primary driver was the need to source appropriately skilled IT workers at competitive wage rates during a time of labour scarcity and rising costs in the United States (efficiency-seeking and talent-sourcing motives). These two cases, along with a later investment by NYSE Technologies, fit within the classic definition of FDI and also the captive offshoring model (as depicted in Panel A1, Figure 2). Over time, the range of IT-related services undertaken by these subsidiaries has broadened, with some evolution into more sophisticated tasks, and some diversification into non-IT business processes. These subsidiaries have also widened their geographical scope from an initial focus on their US parent companies to supporting their parent firm and its subsidiaries across numerous countries. Thus, their organisational and geographical relationships have become more complex over time (as depicted in Panel A3, Figure 2). These subsidiaries are mainly involved in international trade in ICT-enabled services of the type described in the WTO GATS Mode 1 (but on an intra-firm basis). The case of Citigroup is slightly different. This subsidiary moved quickly beyond its initial IT development and support role, adding additional business process and knowledge process tasks, some of which were relocated to Belfast from the firm's London base (motivated by efficiency-seeking). The subsidiary now provides a variety of support services to the parent firm's corporate and investment banking operations in London and across the wider EMEA region, via a technology centre, a back-office operations centre, and a legal and compliance division. As a result, its organisational and geographical relationships are more complex than in a traditional dyadic captive offshoring scenario (as depicted in Panels A2 and A3, Figure 2).

< Figure 2 about here >

The second major sub-group identified in Table 2 comprises six subsidiaries operated by US, French and Indian multinational TP-BPO vendors, which are mainly involved in delivering various (multi-channel) customer contact and relationship management activities, on behalf of their corporate clients, to private consumers within the UK & Irish markets, and occasionally across Europe (hereafter Group 2). These services include inbound contact centres (e.g. handling customer service enquiries, providing technical support), outbound contact centres (telemarketing/telesales) and some back office administration tasks. According to newspaper content analysis, the corporate clients of these centres have spanned various vertical segments (e.g. banking, telecoms, consumer electronics, utilities, retail and government) and included ‘blue chip’ companies like BT, HSBC, Deutsche Bank, Sony, EDF Energy, B&Q, Sainsbury, Dell Computer, Microsoft and Logitech. Although the relationship between these BPO vendors and their clients involves outsourcing, these cases do not match the description of offshore outsourcing seen in the existing literature and depicted in Panels B1 & B2 (Figure 2). Rather, the six foreign-owned TP-BPO vendors have undertaken FDI into the UK with market-seeking motives, seeking to establish an onshore/nearshore service delivery presence. This may reflect the demands of clients in the host market, in response to the widely reported customer backlash against distant offshore call centres. The decision to locate in Northern Ireland specifically then appears to reflect an efficiency-seeking motive, with the region offering a cost-competitive location within the UK context (in terms of wages, office costs and labour turnover rates). Thus, the subsidiaries in this category tend to have geographical and organisational relationships of the type depicted in Panel B3 (Figure 2); in this scenario, there is inter-regional but rarely international trade in services, yet the host region attracts inward FDI. An additional observation about the firms in this group concerns their initial entry mode. Whilst three of the companies came to Northern Ireland as *bone fide* new greenfield investors, it is notable that the others entered by acquiring an

established contact centre from a domestic company (Figure 3). This trend can be viewed as part of a wider ongoing consolidation of the TP-BPO sector, both globally and within the UK market, and attempts by the acquirer firms to expand their 'global footprint'.

Finally, note that the third and fourth categories, which complete the typology in Table 2, include: a captive centre operated by the Spanish retail banking multinational Santander, which undertakes various back office tasks and provides customer contact services to Santander's UK customers; and the local operations of the Japanese IT services multinational Fujitsu, which provide IT development and support services, on an outsourced basis, to corporate and government clients in the local and wider UK market.

6.2 Network position

Additional insights on the services FDI attracted to Northern Ireland, and the ways in which this has (re)positioned the region within wider international divisions of labour, come from considering the 'network position' of the two main sub-groups against the themes outlined in section 2.2. First, the 'locus of control', a key theme from the older literature on FDI and regional development, remains pertinent (Table 1, theme IIa). As was the case with previous rounds of 'branch plant' manufacturing investment, the region finds itself – via its service FDI inflows - subject to a significant degree of external control, with key decisions over significant numbers of jobs now resting in the hands of senior executives in distant global 'command-and-control' centres like New York, Boston, Chicago, Mumbai and Paris. In that sense, there may be concerns that region remains trapped in a 'dependent' situation. Further, in the case of firms in Group 2, there is also an additional layer of complexity to consider. These TP-BPO centres are run by multinational vendors, who compete for contracts from their client companies against rivals with broadly similar capabilities and largely (if not

exclusively) on cost-efficiency. Such operations are therefore subject to an additional degree of 'external' control by their client organisations. This combination of intra-firm, non-local control and external control by client organisations, could be dubbed 'double dependence', and is likely to leave TP-BPO centres in a rather weak and dependent network position.

A second 'network position' issue concerns the distinctiveness of service subsidiaries, in terms of their role and competences, with their wider parent firm (Table 1, themes IIb). In the case of the TP-BPO centres (Group 2), it seems the types of services delivered are comparable to those delivered by other similar centres elsewhere within their parent company networks. It therefore seems unlikely that these centres possess any truly distinctive competences, although this claim awaits further investigation. This might leave these operations quite vulnerable to corporate rationalisations. However, during the period being studied, cultural, linguistic and time-zone compatibility with the UK & Irish markets, combined with favourable operating costs and demonstrated operational effectiveness - i.e. a favourable cost/capability ratio (Yeung & Coe 2015) - appears to have been sufficient for Northern Ireland to retain this type of corporate service activity. In contrast, the US-owned captives in Group 1 seem to fulfil much more distinctive roles within their parent firms, and have apparently - with parent company support - developed some valuable and specialised capabilities; for example, responsibility for developing and supporting software and systems for use across the corporate network (e.g. Liberty IT) or regional 'centres of excellence' for particular knowledge specialisms (e.g. Citi's legal and compliance unit).

The final point in this section concerns and the network embeddedness of subsidiaries, and builds on the 'ego-network' concept recently advanced by Mans (2014), which is held to offer insights into the status of particular places within the world economy (Table 1, themes IIc &

IId). In the case of the US-owned captives in Group 1, it is not easy to identify equivalent 'peer cities' within their corporate networks, due to their apparently distinctive roles and specific competences. Rather, for these operations, the relevant ego-network seems to include important world cities such as London, New York, Boston and Chicago, since the Belfast-based subsidiaries in this group are connected to these headquarters cities by their provision of important support services. This moderate degree of network centrality and fairly high 'strategic relatedness' might be interpreted as an upward shift in the status of the region within the world economy. By contrast, in the case of TP-BPO centres (Group 2), the region finds itself part of an 'ego network' that comprises cities in the lagging regions of developed countries (e.g. Cardiff or Middlesboro in the UK; Halifax or St. John in the Atlantic provinces of Canada) and, more exotically, various cities in the emerging economies (e.g. Krakow, Buenos Aires, Cape Town, Cairo, Jaipur or Manila), since the multinational TP-BPO vendors have located similar service delivery centres in all of these places over the last decade. This latter ego-network may portray a less optimistic image of the region's (changing) role within the evolving international division of labour.

< Figure 3 about here >

7. Direct employment impacts

The discussion in this final empirical section is organised around four themes: job quantity, job quality, job stability and longevity, and sub-regional equity issues (summarised in Table 1). Job creation remained a key regional policy imperative throughout the period under investigation. However, assessing the quantity of employment generated by services FDI is not straightforward, due to the lack of disaggregated official data on foreign firms. As reported earlier, around 30,000 new services 'jobs promoted' were reported by InvestNI over

the period 1995/96-2009/10, with perhaps three-quarters of these being in foreign (rather than GB-owned) firms. However, 'jobs promoted' figures are notoriously unreliable and, in any case, not all of these jobs will have been in existence at the same time. For an alternative perspective, official Equality Commission data shows that the ten firms comprising Groups 1 and 2 in Table 2 employed a total of around 11,000 people by 2013, compared to only 750 in these same firms in 2000 (Figure 3). Although, these numbers may seem small by comparison with major service offshoring 'hotspots' in the emerging world, such locations are not a meaningful benchmark for a small peripheral region of 1.8 million people. The Krakow/Malopolska region of Poland, which is similar in size to the greater Belfast metro region, may be a more appropriate comparator. According to Micek et al. (2011), this Polish region – an alleged service offshoring 'hotspot' - had a total of around 9,700 jobs in captive and BPO centres by 2007. Another relevant yardstick, given the region's branch plant tradition is employment in foreign-owned manufacturing plants, which peaked at around 30,000 in 1979 (Fothergill & Guy, 1990) before declining to less than 20,000 by the early 2000s. When judged against these benchmarks, the number of service jobs attracted to Northern Ireland via FDI is certainly not trivial, and whilst the numbers may not be truly 'transformative' for an economy with nearly 700,000 private sector jobs, these projects can be said to have played a role in re-orienting the economy away from declining traditional sectors and partly offsetting the loss of manufacturing jobs. Also, taking a more fine-grained view, it is also worth noting that growth of IT-related employment at the four US-owned captives, from less than 250 jobs in 2000 to over 3,000 jobs by 2013 (Figure 3), represents a major contribution of new job opportunities to the regional IT labour market, since total employment in IT companies was only 4,000 in 1999. Finally, note that BPO centres have brought significant numbers of jobs to particular local labour markets across Northern Ireland, including some afflicted by high unemployment (e.g. Derry City, Newry).

Job quality in services FDI investors can be gauged by looking at wage levels, skill and qualification levels, and the balance between full-time and part-time jobs. The available evidence on these dimensions reveals some very significant differences in job quality between the two main types of investor (Group 1 captives versus Group 2 BPO centres). First, according to data reported by Invest NI (2008), only 29% of the new jobs promoted in ‘business and financial services’ inward investment projects (a good proxy for the BPO sector) between 2002/03 and 2007/08 paid above the regional private sector median wage, whereas the equivalent figure for ‘software and computer services’ projects was 86%. This distinction is corroborated by evidence from news media coverage and adverts on regional job-finder websites. For example, several job expansion announcements quoted average gross annual salary figures that equate to two-to-three times the national minimum wage at Group 1 firms. By contrast, several of the BPO centres were found to be recruiting new entry-level employees at, or marginally above, the national minimum wage. Second, anecdotal evidence and media coverage of investment announcements suggests that the vast majority of jobs in the US-owned captive centres (Group 1) were skilled, graduate-level-and-above jobs. By contrast, the TP-BPO centres tended to require only basic secondary education, and in some cases they had relaxed the need for formal qualifications, placing more emphasis on ‘soft skills’ when recruiting new agents. Third, evidence from the Census of Employment 2013, suggests that 94% of employees in ‘computer programming, consultancy and related activities’ firms were full-time, compared to only 83% of employee jobs in ‘activities of call centres’ firms. Overall, the available evidence depicts a significant divergence in job quality between the two main sub-groups, with the TP-BPO centres offering jobs of questionable quality and seemingly having much in common with the stereotypical manufacturing branch plant, whereas the US-owned captives seem to have brought mainly high quality jobs.

The job stability and longevity criterion also reveals some interesting contrasts between the two main sub-groups. Among the four captives, there has been significant job stability and, in fact, steady (sometimes rapid) employment growth, seemingly linked to task mandate extension (Figure 3). The picture among the TP-BPO operations is considerably more mixed. Among the five investors that had been established in the region for more than three years, two firms have so far experienced employment growth and no notable rationalisations, but three exhibited notable volatility in employment levels, including several specific incidences of job shedding, two site closures (Stream in Derry and HCL's Armagh operation) (Figure 3). News media coverage supports the interpretation that BPO centres are inherently vulnerable to fluctuations in employment because the competitive project-based rivalry between BPO vendors is likely to result in the occasional contract losses.

A final issue is the sub-regional distribution of employment, which raises some spatial equity issues and policy challenges. A detailed spatial breakdown of employment in assisted services FDI projects is not available, so analysis of the 12 leading investors provides the best yardstick. A notable point is that all four of US-owned captives (Group 1) operate primarily in Belfast, the main urban centre, although the largest investor (Allstate) has also expanded to secondary sites in Derry City and Strabane (Figures 3 and 4). This preference for locating in Belfast may reflect the greater likelihood of being able to recruit sufficient numbers of skilled graduates and experienced managers in the largest urban centre, with its more diverse labour market, two universities and larger travel-to-work area. This issue presents an ongoing challenge to policy-makers who might wish to see a more equitable distribution of high quality jobs throughout the region. In slight contrast, among the six TP-BPO investors in Group 2, the two Indian firms (HCL and FirstSource) operated from a second location as well

as Belfast and two of the firms (Teleperformance and Stream) have never operated in Belfast (Figures 3 and 4). Thus, the geographical footprint of the TP-BPO centres is notably more dispersed than the captives (Group 1), extending to the second city (Derry) and some smaller urban centres (Bangor, Newry and Armagh) (Figure 4). This more dispersed pattern is thought to reflect the less stringent skill/qualification needs of these firms, their desire to secure access to additional workers away from the more-crowded Belfast labour market, and the possibility of securing lower labour and operating costs in the smaller urban centres. It is worth noting that the geographical dispersion of these BPO jobs is still much narrower than that associated with the manufacturing branch plant era, when foreign investors were lured to a greater number of towns across the region. Thus, overall, despite some of their positive employment impacts on the regional economy, services foreign investors seem to have exacerbated existing sub-regional divisions of labour through their location preferences.

< Figure 4 about here >

8. Conclusion

This chapter has extended the literature on the host economy implications of service offshoring and outsourcing and FDI into a new empirical context – lagging peripheral regions of developed economies – via a case study of the experience of Northern Ireland since the mid-1990s. The overall inward investment experience of the region was examined and the structural characteristics and direct employment impacts of leading services foreign investors were explored. To support and structure this investigation, a new analytical framework was developed from the existing literatures on FDI and regional development, subsidiary management and service offshoring (Table 1). This framework may be transferable to other studies and should be trialled and adapted in different empirical contexts. The chapter has

also elaborated on existing portrayals of service offshoring by identifying and delimiting some specific geographical and organisational configurations from the host economy's perspective (Figure 2).

In the Northern Ireland case, services FDI was found to have partially transitioned the region away from its branch plant manufacturing past, and partly repositioned the region within the international division of labour, but with qualitatively mixed results. Services FDI has undoubtedly brought some benefits, such as job creation, industrial restructuring and modernisation and the possible emergence of some locally-anchored capabilities. However, the two main types of foreign-owned service subsidiary identified in this region were shown to have quite different network positions and contrasting direct employment impacts, with one group seemingly having more intrinsic value to the host economy than the other. Thus, one interesting feature of the Northern Ireland case is that it indicates that a small region can become simultaneously 'strategically coupled' with two (or more) quite different global production networks. This phenomenon, which here encompasses both 'low-road' (onshore TP-BPO centres) and 'higher-road' (skill-intensive captive centres) value-capture trajectories, does not seem to have been explicitly noted by any previous studies. It is suggested that this observed divergence may be related to the particular characteristics of the regional labour market, although this awaits further investigation. However, this rather mixed picture does seem to challenge simplistic binary distinctions between favourable (upgrading/development) and unfavourable (downgrading/dependence) regional encounters with FDI and global production networks. Finally, the study has complemented existing studies of service offshoring destinations in the emerging world by revealing that lagging regions in the developed world can perform some distinct roles within evolving service production networks. For example, in Northern Ireland, foreign-owned TP-BPO centres perform an

onshore/nearshore (rather than offshore) service delivery role, benefiting from geographical and cultural proximities to target (developed country) markets, whilst exploiting the cost advantages associated with lagging regions within these markets. Future research should dig deeper into the particular nature, basis and types of the ‘strategic (re)coupling’ between particular regions and different services global production networks (MacKinnon, 2012). There is also a need to explore and understand the possibilities for, and drivers of, subsidiary evolution in offshored and outsourced service centres. Combining insights from the subsidiary management stream within International Business with the global production network approach from economic geography would seem to offer a viable way forward.

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Figures and Tables

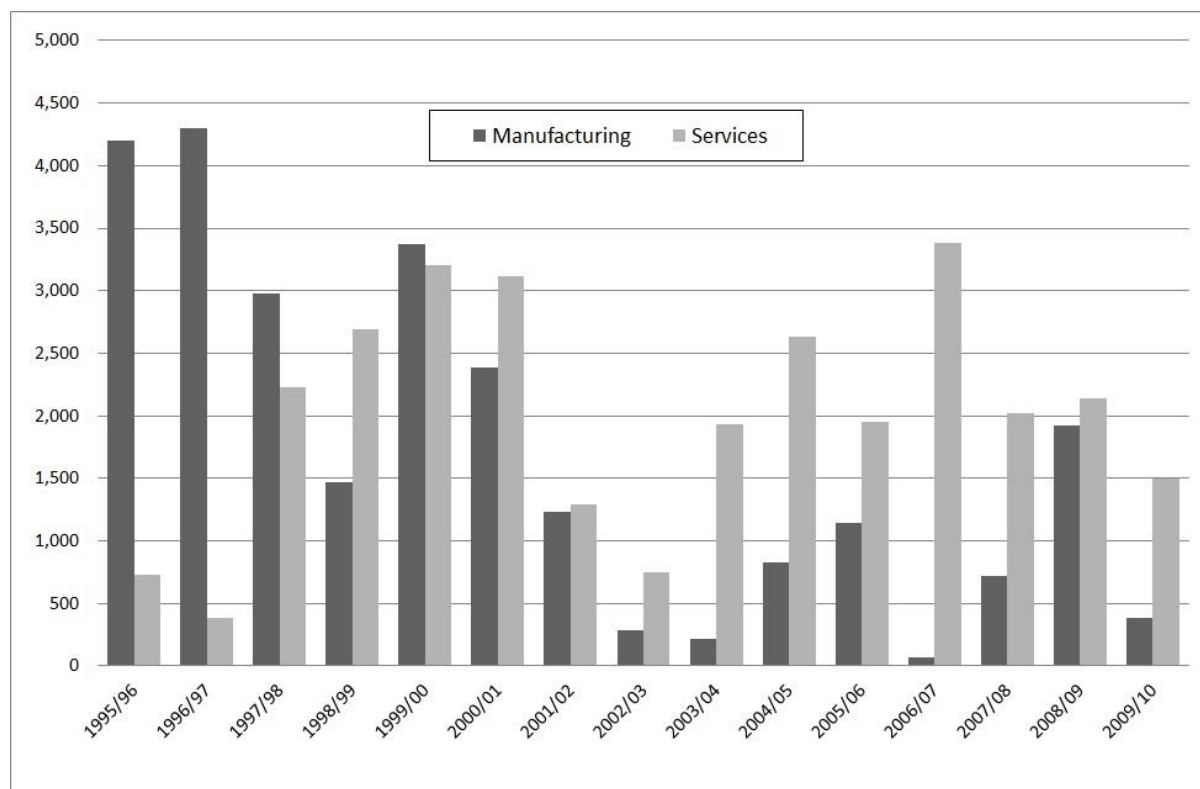
Table 1: Analytical comparison of two main sub-groups among leading services foreign investors in Northern Ireland

Analytical categories	Group 1: Captives with initial IT focus (n=4)	Group 2: TP-BPO vendors (n=6)
<i>I. Structural characteristics: subsidiary attributes</i>		
a. Ownership (domestic/foreign, nationality)	Foreign, exclusively US-owned	Foreign, mix of US, Indian and French-owned
b. Entry mode (greenfield/acquisition, single or repeat investments)	Mainly greenfield, followed by multiple repeat investments	Mix of greenfield and acquisition, with multiple repeat investments
c. Governance mode (captive/outsourced)	Captive centres	TP-BPO centres
d. Type of services, as per UNCTAD (2004) and Gereffi/Fernandez-Stark (2010) categories	Mainly IT services, some other shared services (UNCTAD); mainly IT offshoring, some knowledge & business process offshoring (G&FS)	(Inbound and outbound) call centres and back office services (UNCTAD); Business process outsourcing (G&FS)
e. Nature service delivery (internal/external, B2C/B2B)	To internal demand (parent firm and/or sister subsidiaries)	To private consumers on behalf of clients, sometimes directly to client firms (back office tasks)
f. Breadth of task mandate and geographical scope	Initially narrow task mandate but subsequently broadened; expansion of geographical scope - e.g. from US parent to worldwide corporate network	Initially narrow task mandate with minimal broadening; mainly focused on onshore/nearshore provision for UK and Ireland market (but occasionally 'export' markets)
<i>II. Structural characteristics: network position</i>		
a. Locus of control (local/non-local, internal/external, locations)	Internal, non-local control from parent HQs in developed world cities	Internal, non-local control from parent HQs in developed or emerging world cities <i>and</i> external, non-local control from client HQs in developed world cities. Double dependence?
b. Distinctiveness of role (unique/ comparable) and competences (specific/generic) within parent firm	Typically unique role and specific competences (evolving over time)	Role comparable to other subsidiaries and competences largely generic
c. Network embeddedness: strategic relatedness (high-low), connectivity (high-low), centrality (nodal-peripheral)	Not core node but high intra-firm connectivity; role supporting parent and sister subsidiaries suggests moderately high strategic relatedness	High strategic relatedness to parent firm; importance of host market may increase subsidiary status; lower strategic relatedness and more peripheral to client firms
d. Ego-network: location of peer subsidiaries	Often no direct peer in parent network; strong network connections to some world cities	Tier 1 and 2 cities in emerging economies and lagging regions in developed economies
<i>III. Direct employment impacts</i>		

a. Job quantity	Initially medium-sized projects with subsequent, sometimes significant, expansion; significant job numbers in context of regional IT labour market	Medium-sized or large projects, with sometimes rapid expansion; some very significant job numbers in particular local labour markets
b. Job quality (skill levels, graduate/non-graduate, wage levels)	Mainly managerial and skilled jobs; mainly but not exclusively graduate-level and above; mainly well paid jobs in the regional context	Mainly semi-skilled jobs; mainly non-graduate jobs with less emphasis on formal qualifications; mainly low paid jobs (with some pressure on terms and conditions)
c. Job stability/volatility and durability	Generally high stability and steady expansion; apparently high durability with no closures or significant down-sizing to date	Significant volatility in some companies and churn in the wider sector; some whole or partial closures but projects more durable/less footloose than might be expected
d. Sub-regional distribution	Mainly concentrated in Belfast (regional capital and largest city)	Spread between Belfast and some 2 nd /3 rd tier small cities and large towns (but not widely dispersed)

Note: The two main sub-groups, as described in Table 2, were identified among the 12 leading services foreign investors (based on peak employment during 2000-13); the table provides a general summary and may conceal some variations between individual subsidiaries.

Figure 1: Number of new jobs promoted annually in Invest NI-supported inward investment projects by broad sector, 1995/96 - 2009/10



Note: Data shown here relate to all assisted ‘inward investment’ projects into Northern Ireland – i.e. including investments from the rest of the UK (GB) as well as FDI. Over this whole period, 76% of all new jobs promoted (42,157) and 72% of all assisted projects (n=389) were in foreign-owned (i.e. non-UK) companies. Also, note that these figures refer to the expected number of jobs associated with assisted projects, rather than the actual number of jobs created.

Source: author’s calculations from data supplied by Invest Northern Ireland.

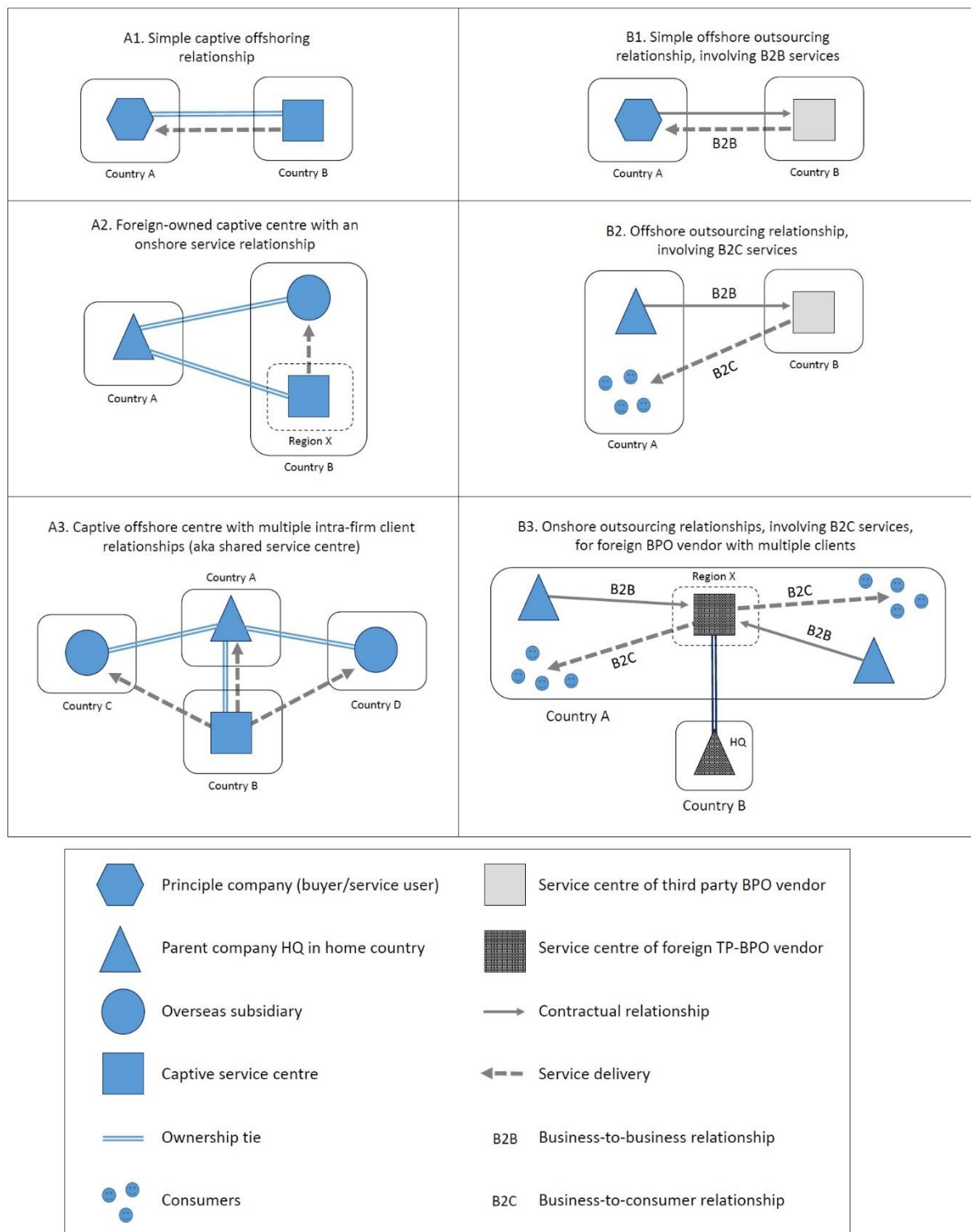
Table 2: Classification of 12 leading services foreign investors in Northern Ireland by main activity, governance mode, ownership and initial entry mode

	Captive centres	Third party vendors
Investors initially involved in IT, software or technology development and support activities	<p><i>Group 1: US-owned captives (with initial IT focus)</i></p> <p>Allstate NI (US)^{GF *}</p> <p>Citi (US)^{GF *}</p> <p>Liberty IT (US)^{GF}</p> <p>NYSE Technologies (US)^{ACQ}</p>	<p><i>Type 3: IT outsourcing vendor</i></p> <p>Fujitsu Services (Japan)^{GF}</p>
Investors primarily involved in contact centre (and other business process) activities	<p><i>Type 4: Captive centre with business process focus</i></p> <p>Santander (Spain)^{ACQ}</p>	<p><i>Group 2: TP-BPO centres</i></p> <p>Stream Global Services (US)^{GF}</p> <p>TeleTech (US)^{GF}</p> <p>HCL Technologies (India)^{ACQ}</p> <p>Teleperformance (France)^{GF}</p> <p>FirstSource Solutions (India)^{ACQ}</p> <p>Concentrix Technologies (US)^{ACQ}</p>

Notes: Initial entry modes: ^{GF} = Greenfield, ^{ACQ} = Acquisition; * indicates subsidiaries subsequently involved in various (non-IT) business process, shared services and knowledge process activities.

Source: author's classification (typology developed from UNCTAD, 2004, and Sako, 2005).

Figure 2: Some possible geographical and organisational configurations in offshore services



Source: author.

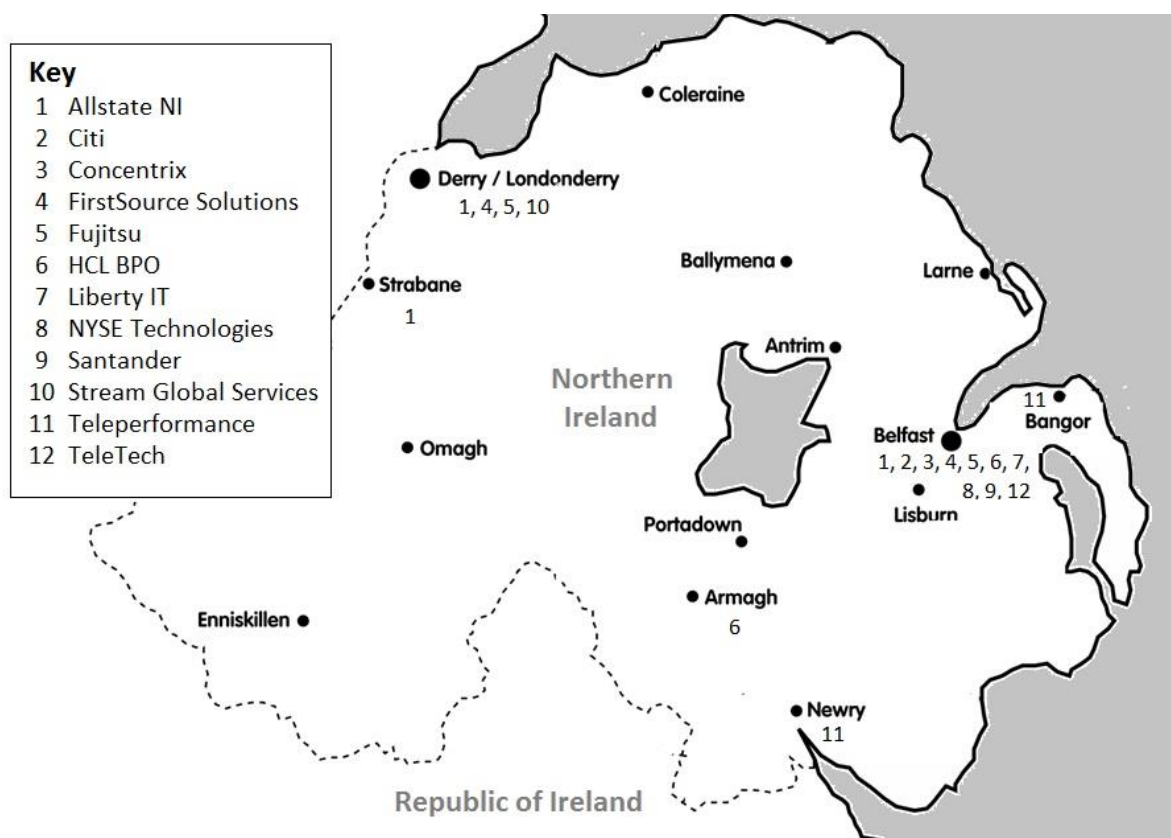
Figure 3: Timelines showing key events and employment data for 4 largest ‘captive’ and 6 largest TP-BPO foreign investors in Northern Ireland

Company [ownership]	Locations	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Captives with initial (or sole) IT focus																				
Liberty IT [USA]	Belfast		nd	nd	nd		95	114	130	135	155	188	223	192	247	250	282	314	353	364
			①					②			③	④		↓ ⑤				⑥		
Allstate NI [USA]	Belfast			nd	nd		125	244	432	687	962	1,444	1,558	1,556	1,436	1,607	1,807	2,027	2,004	2,326
	Derry		①					② a			③ a		④ a							⑤
	Strabane							② b			③ b		④ b							
											③ c									
Citi Group [USA]	Belfast										-	51	165	405	624	725	771	979	987	1,107
											①	② ③	④	⑤	⑥					
NYSE Technologies (acquired Wombat)	Belfast										-	79	90	135	140	201	243	276	290	
											①		②	Δ	③					
Cumulative employment at 4 largest captives							220	358	562	822	1,117	1,683	2,025	2,243	2,442	2,722	3,061	3,563	3,620	4,087
Third Party BPO vendors																				
Stream Global Services [USA]	Derry	nd	nd	nd	nd	nd	390	584	655	472	488	649	501	576	898	758	48	51	27	26
			①				②		③	↓			↓	④		↓	⊠			
TeleTech [USA]	Belfast							130	374	137	216	235	516	928	618	511	505	655	293	346
								①							↓	↓ ②			↓	
HCL BPO (acquired BT operation) [India, prev. GB]	Belfast							-	43	43	264	301	1,839	2,096	1,924	1,646	1,367	1,443	924	469
	Armagh							JV Δ			①	② b			↓	↓		↓	↓	
											EA ② a							⊠		
Teleperformance (acquired MM Group) [France, prev. GB]	Bangor						108	341	294	493	528	841	719	771	1,331	1,660	1,557	1,669	2,008	2,928
	Newry						○		○		Δ ①		↓	② b		③ b			④	
														② a		③ a			④	
FirstSource Solutions [India]	Belfast											57	904	867	1,404	1,712	1,644	2,238	2,323	
	Derry											① a								
												① b		②	③ ab			④		
Concentrix (acquired GEM) [USA, prev. N. Ireland]	Belfast						25	80	195	257	175	438	328	837	758	628	507	708	683	892
							○			↓	○	↓	○		↓	○	↓	Δ ①	②	③
Cumulative employment at 6 largest TP-BPO vendors							523	1,135	1,561	1,402	1,671	2,464	3,960	6,112	6,396	6,607	5,696	6,170	6,173	6,984

Source: author’s compilation, based on various secondary data sources and Equality Commission Annual Monitoring Reports (employment data).

Key to symbols used in timeline diagram	
①	Reported FDI project, round of investment or significant expansion
①ab	Indicates multiple projects in the same year
○	Known investment by previous (GB or Irish) owner
JV	Initial entry via minority JV but subsequently wholly-owned
-----	Operation under GB or Irish ownership
=====	Operation under foreign (non-UK or Irish) ownership
Δ	Change of ownership, acquisition by foreign firm
EA	Expansion by acquisition of an established local facility
↓	Rationalisation (>10% reduction in employment)
☒	<i>De facto</i> closure of whole subsidiary or branch operation
nd	no data available (series collated from 2000 onwards)

Figure 4: Map showing locations of 12 leading offshore services-related foreign investors



Source: author