

# The need for an international classification of business functions

Timothy Sturgeon

Senior Researcher, MIT Industrial Performance Center

Meeting of the Technical Subgroup on the Classification of Business Functions

Virtual meeting, 4-5 November 2020

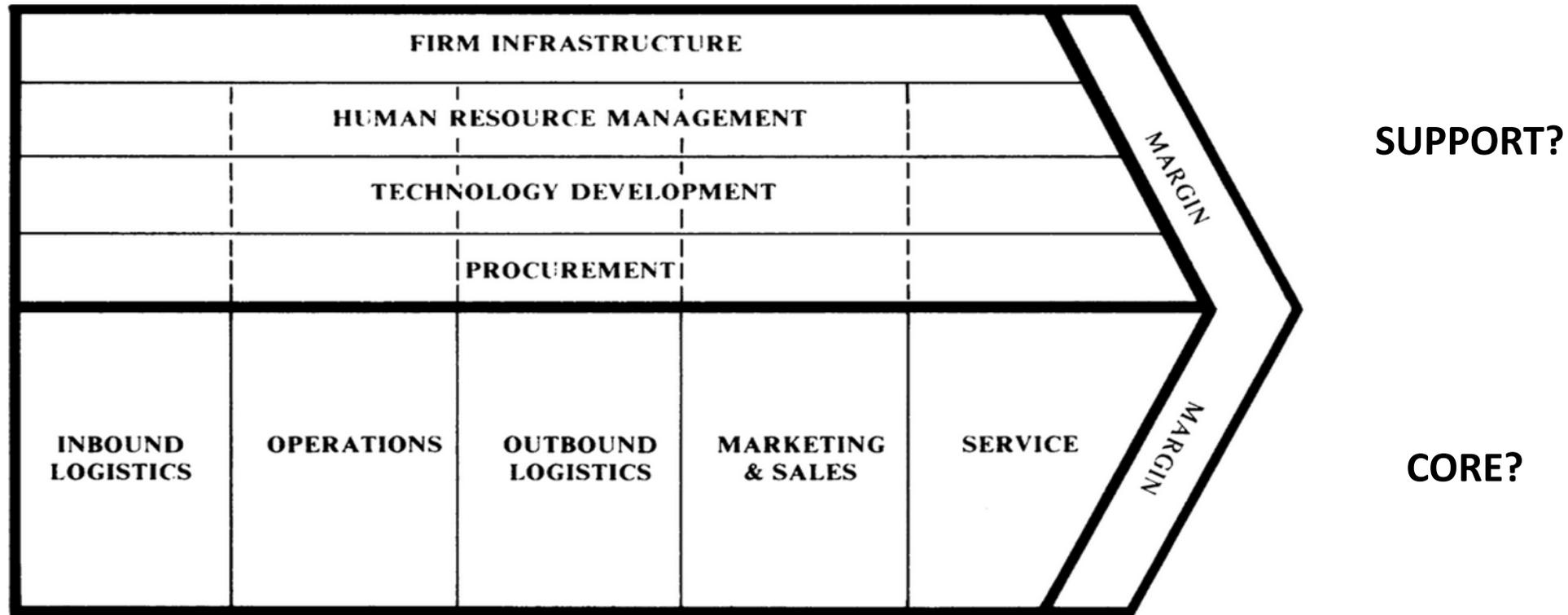
**Session 2: Setting the stage**

**November 4, 7:30 – 8:15**

2007 International Sourcing Survey (Eurostat)	2012 International Sourcing/Global Value Chains Survey (Eurostat)	2010 National Organizations Survey (US: Brown & Sturgeon)	2009/2012 Survey of Innovation and Business Strategy (Statistics Canada)	2017/2018 International Sourcing/ Global Value Chains Survey (Eurostat)
(7 functions: 1 core and 6 support)	(6 functions: 1 core and 5 support)	(8 functions: 1 core and 7 support)	(14 functions: 2 core and 12 support)	(9 functions: 2 core and 7 support)
Core business function	Core business function	Primary business function	Provision of goods Production of services	Core business functions <ul style="list-style-type: none"> <li>• <i>Production of goods (for the market)</i></li> <li>• <i>Provision of services (for the market)</i></li> </ul>
Distribution and logistics	Distribution and logistics	Transportation, logistics, and distribution	Distribution and logistics	Transport, logistics, and distribution support functions
Marketing, sales and after sales services including help desks and call centres	Marketing, sales services and after sales services, incl. help desks and call centres	Customer and after-sales service Sales and marketing	Call centres and help centres Marketing, sales and after sales service	Marketing, sales, after sales service support function
ICT services	ICT services	Information technology systems	Data processing Software development Information & comm. tech. (ICT) services	IT services and software support functions
Administrative and management functions	Administrative and management functions	Management, administration, and back office functions	Legal services Accounting and book-keeping Human resource management Financial management	Management, administration, and back-office support functions
Research & Development	Research & Development, engineering and related technical services	Research & Development of Products, Services, or Technology	Research and development (R&D)	R&D, Engineering and related technical services and R&D support functions <ul style="list-style-type: none"> <li>• <i>Research &amp; development services (R&amp;D)</i></li> <li>• <i>Engineering and related technical services (except R&amp;D)</i></li> </ul>
Engineering and related technical services			Engineering and related technical services	
Other	Other	Facilities Maintenance Other	Other	Other business functions

# Michael Porter's generic "value chain"

Dividing the enterprise into "physically and technologically distinct categories"



Source: Porter, 1985

A key insight from Porter is the notion that each function can be analyzed as a sub-business, with costs, value added, and therefore, margins

This provided enterprises with a framework for making "rational" make vs buy decisions in the 1990s and 2000s

# Taking advantage of a common business concept to collect novel business statistics

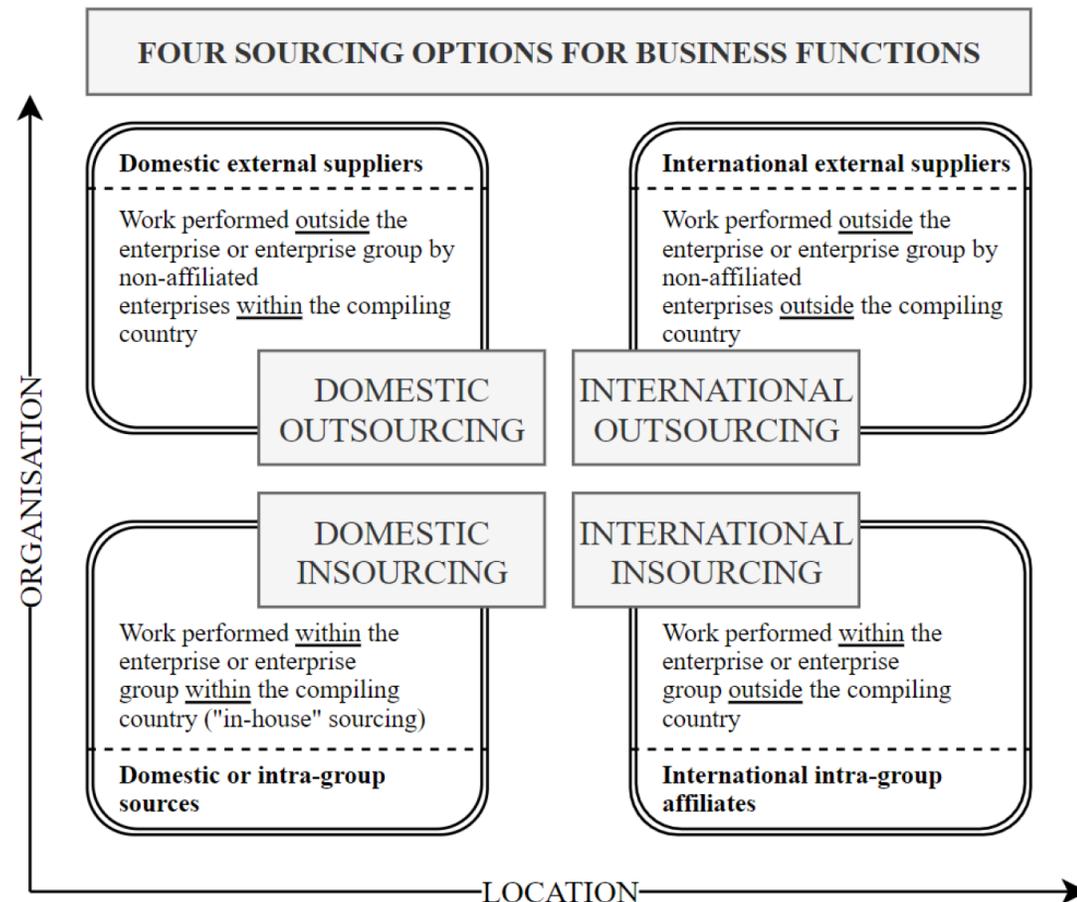
What makes a function distinct (according to Porter)?

- Different economies of scale
- High potential for differentiation
- High % of costs

OK Ms. Manager, you have decided to outsourcing something...

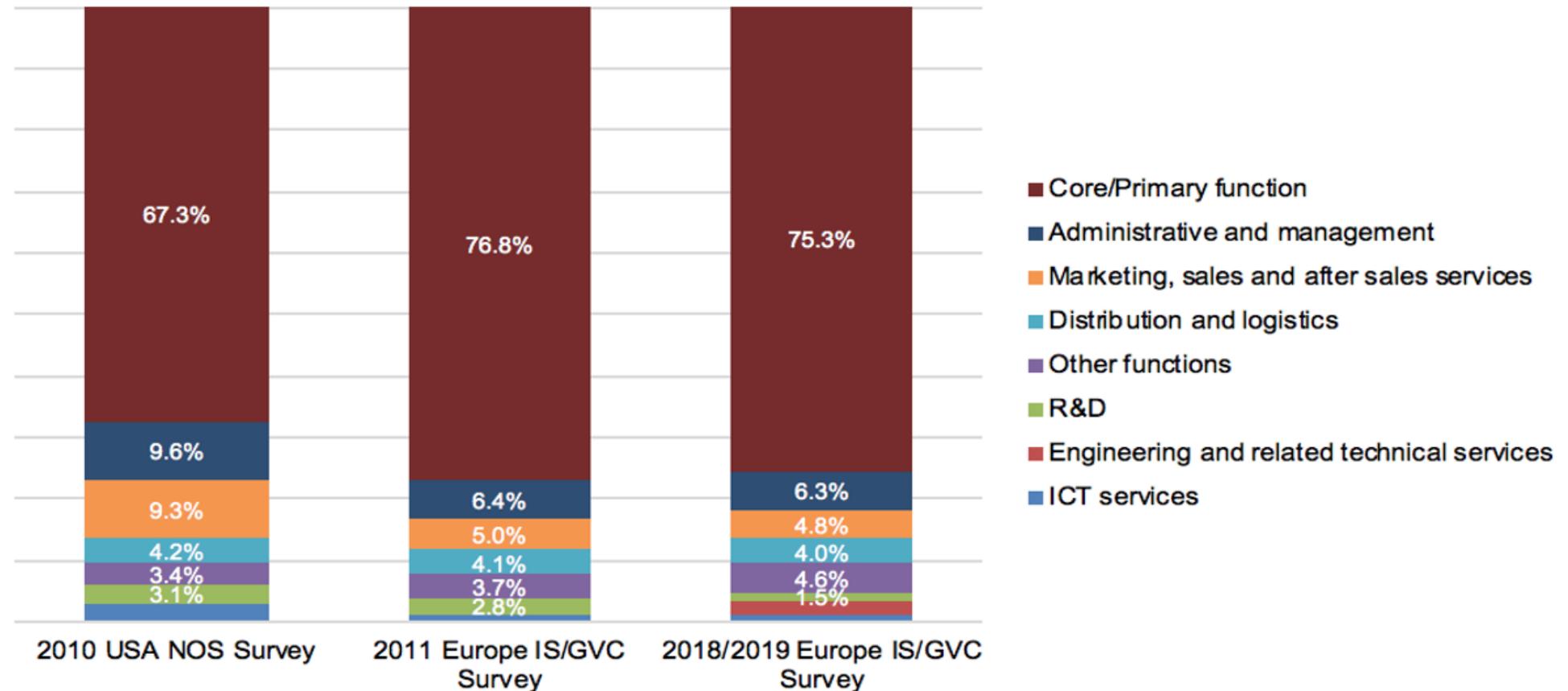
... the next question is, to who, and where?

You have four options....



Source: adapted from Nielsen, 2008, and Eurostat's methodology for international sourcing surveys.

# Employment by business function across the U.S. and two European surveys



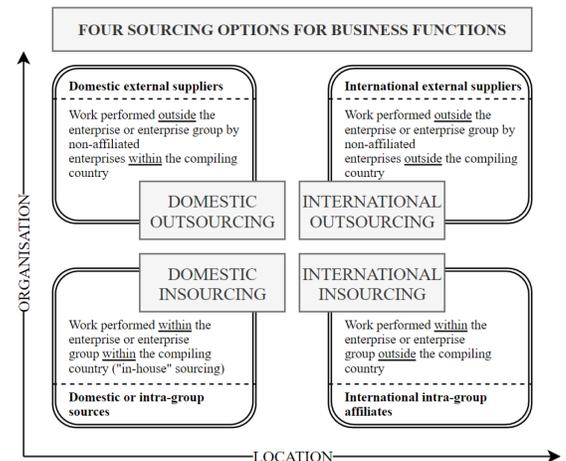
Sources: 2010 NOS: Brown, Sturgeon and Cole, 2013. Eurostat IS/GVC surveys 2011 and 2018/2019.

# Looking "under the hood" of the enterprise

We can see the car (output), and may its parts (intermediates), but what about the generic business services needed to keep an organization running?



## Outsourcing and offshoring



# Why is there demand for new data on business functions?

- Demand stems in part from the mainstreaming of offshoring and outsourcing strategies by enterprises across size and industry classifications.
  - It cannot be assumed that enterprises will carry out all, or even most business functions entirely within their organizations, within their domestic economy.
- Organizational and geographic fragmentation in global value chains (GVCs) is not only evident in enterprises' main revenue-producing activity, but also across a range of supporting, or ancillary business functions such as:
  - R&D and product design; sales and marketing, and customer support; and various management and administrative functions.
- But, once outsourced, a function may not stay that way, and combining make and buy is very common as well! Everyone is interested in sourcing dynamics at the moment!

# A generic framework with generic uses

- Business function statistics can help researchers, statisticians, and policymakers in multiple ways:
  - To measure and monitor organizational and spatial patterns in national, regional and global value chains
    - Domestic outsourcing (important in large countries like the USA, Brazil, and China)
    - International sourcing
    - Affiliated vs non-affiliated trade
    - Vertical specialization of economies
    - Dynamics supply chains and specializations (reshoring, regionalization, low cost sourcing, upgrading)
    - Impacts of trade and FDI
    - Support construction of international business group registers
    - etc.
  - To measure the effects of these patterns (or other events) on:
    - Employment (by function),
    - Wages (by function),
    - Innovation (as a function),
    - Skills (by function),
    - Firm survival and turnover (in the midst of dynamic change in GVCs)
    - etc.

# What is a Business Function?

Various definitions are in use

Source	Definition
<a href="#">UNECE Statistics Wiki</a>	Something an enterprise does, or needs to do, in order to achieve its objectives.
<a href="#">Business Dictionary</a>	A process or operation that is performed routinely to carry out a part of the mission of an organization.
<a href="#">Quora knowledge base</a>	A major organizational unit of a business which has specific responsibilities and performs activities on a regular basis to enable the business to carry out its mission. The function refers to both the organizational unit and the types of activities it performs.
<a href="#">Simplicable</a>	High level groupings of business processes and capabilities that describe a business at its highest level. Examples include governance, strategy, finance, marketing, R&D, information technology, customer service, human resources, production, quality, distribution, sourcing, operations (core function), and design.
<a href="#">IBM Knowledge Center</a>	Business functions have a structure that is independent of product or organization, thereby facilitating a faster response to new market, product, or organization needs. They are consistent across lines of business and functional areas.

## Eurostat Definition:

A set of tasks that most enterprises must carry out on a regular basis, either internally or externally, in order to bring goods or services to market

Business functions might usefully be thought of as the ‘occupations of enterprises.’

They can be corresponded with specific industries/activities, occupations, and products in a general way but **are not reducible** to them.

Business function classifications are therefore **not a complimentary grouping** within any other classification.

It is based on a **novel concept in business management.**

**THANK YOU!**