

International Sourcing

2009-2011, 2012-2015

Globalization and the portuguese enterprises

In the period 2009-2011, 15.3% of Portuguese enterprises with 100 or more persons employed carried out International Sourcing, mainly with business partners located in the EU and in the Portuguese Speaking African Countries (PALOP). Around 12% of the enterprises were planning to carry out International Sourcing in the period 2012-2015, mainly with EU-15 and PALOP countries.

In 2011, 9.1% of the enterprises with 100 or more persons employed had affiliates outside of Portugal, mainly in PALOP, EU-15 countries and Brazil. Around 24% of the enterprises contracted some business functions with foreign suppliers, mainly located in EU-15 countries.

Statistics Portugal releases the main statistical findings for Portugal from the European Survey on Global Value Chains, carried out by a total of 15 European countries between May and October 2012. In Portugal, a sample of 1000 active enterprises with 100 or more persons employed was surveyed. The main goal was to study the globalization and inherent economic practices of enterprises during the period 2009-2011 and respective plans for the period 2012-2015. This project follows the first survey on International Sourcing carried out in 2007, for the reference period of 2001-2006. Throughout this press release, data regarding Portugal are presented and, whenever available, also for the 15 participating countries in order to allow international comparisons.

1 – GLOBALIZATION IN THE PERIOD 2009-2011

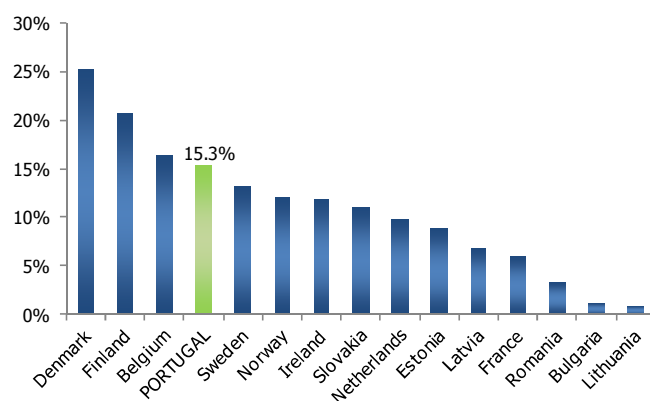
1.1. INTERNATIONAL SOURCING IN THE PERIOD 2009-2011

What is Sourcing?

Sourcing consists on total or partial movement of business functions, so far carried out by an enterprise established in a certain country, to other enterprises located in the same country or abroad with which there are (or not) group relations. The enterprise functions sourced may be the core business or the support business functions. **International Sourcing** implies that business functions (performed in-house or currently domestically sourced) are moved to other enterprises (within or outside of the enterprise group) located abroad.

Portugal ranks 4th amongst the 15 participating countries with enterprises engaged in International Sourcing practices

Share of enterprises with International Sourcing by European country, 2009-2011

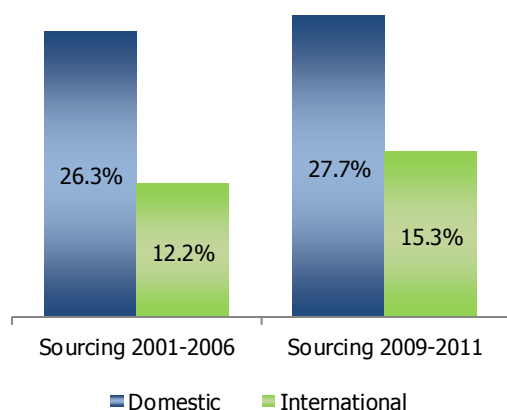


15.3% of enterprises with 100 or more persons employed carried out International Sourcing in the period 2009-2011

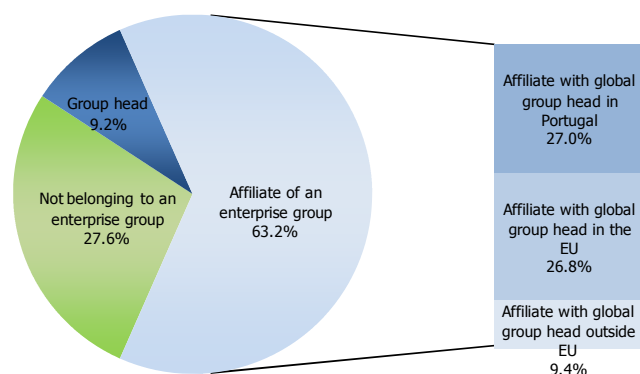
(3.1 percentage points more than in 2001-2006)

More than 72% of enterprises that carried out International Sourcing were part of an enterprise group

Share of Portuguese enterprises carrying out Sourcing, 2001-2006 versus 2009-2011

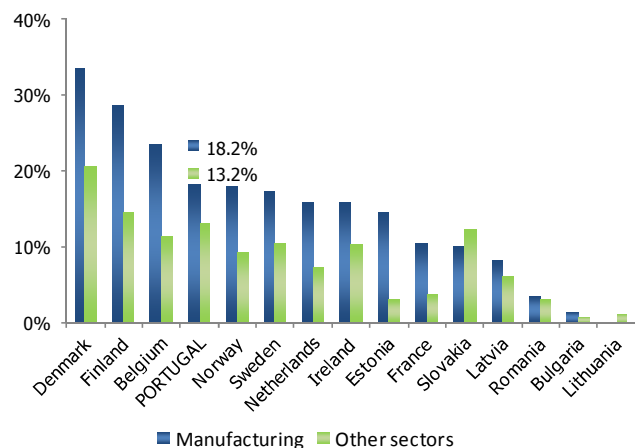


Group relations in Portuguese enterprises with International Sourcing, 2009-2011



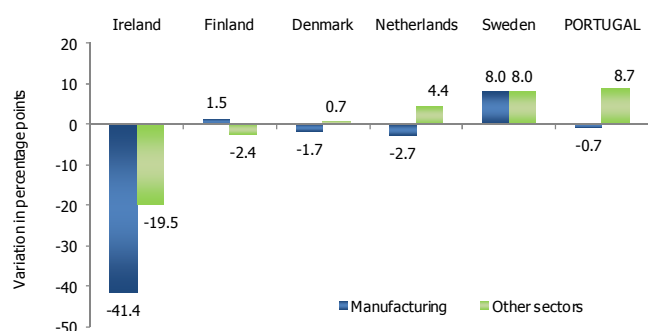
18.2% of manufacturing enterprises carried out International Sourcing

Share of enterprises with International Sourcing, by economic activity sector and European country, 2009-2011



About 18% of Portuguese manufacturing enterprises carried out International Sourcing, 5 percentage points (p.p.) above the result of the remaining activity sectors (13.2%).

Evolution of the share of enterprises with International Sourcing, by economic activity sector and European country (2001-2006 versus 2009-2011)

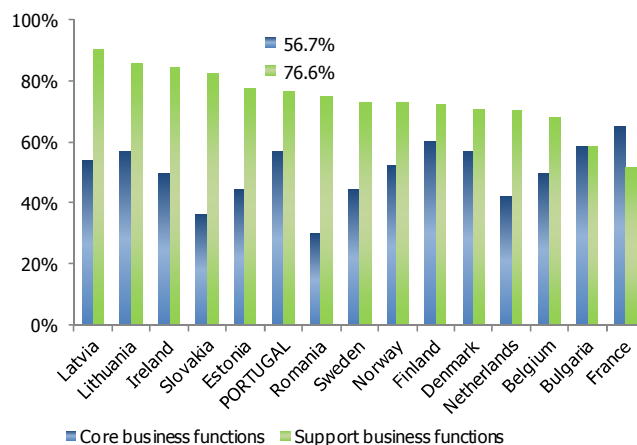


International Sourcing continues to be a model mostly used by manufacturing enterprises; however its use has been growing for enterprises of other activity sectors. In comparison with the first set of survey results

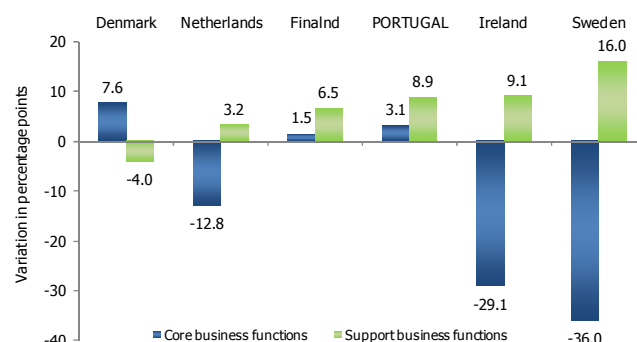
(covering the period 2001-2006), the proportion of Portuguese non-manufacturing enterprises engaged in International Sourcing increased by 8.7 p.p. in 2009-2011.

76.6% of enterprises carried out International Sourcing of support business functions

Share of enterprises with International Sourcing, by business function and European country, 2009-2011



Evolution of the share of enterprises with International Sourcing, by business function and European country (2009-2011 versus 2001-2006)

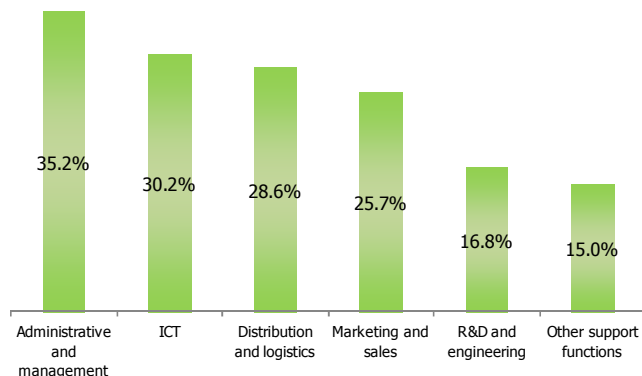


The second wave of results for 2009-2011 highlights the growth of the International Sourcing of support business functions. In Portugal, there was an increase of 8.9 p.p. in the proportion of enterprises that sourced at least one support business function abroad.

More than 30% of enterprises sourced

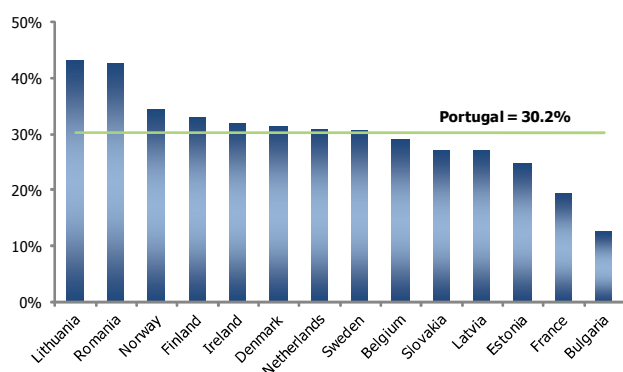
Administrative, Management and ICT services abroad

Share of Portuguese enterprises with International Sourcing by support business function, 2009-2011



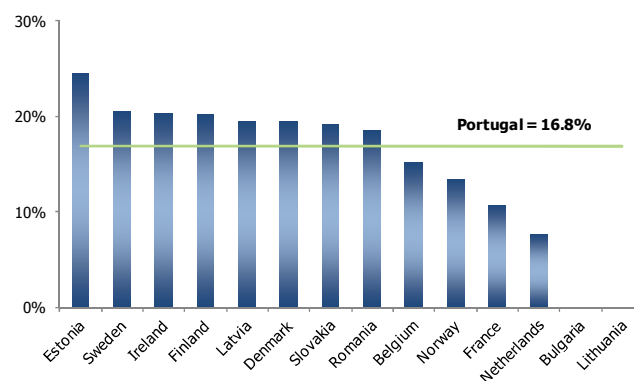
In Portugal, the most internationally sourced support business functions were administrative and management functions, and information and communication technologies (ICT). Research and Development (R&D) along with Engineering functions ranked 5th in 2009-2011, while they ranked 1st in the first wave of results. About 26% of enterprises sourced those functions abroad in the period 2001-2006.

Share of enterprises with International Sourcing of ICT, by European country, 2009-2011



In the European context, ICT services were the most internationally sourced functions by enterprises of the 15 participating countries in the survey.

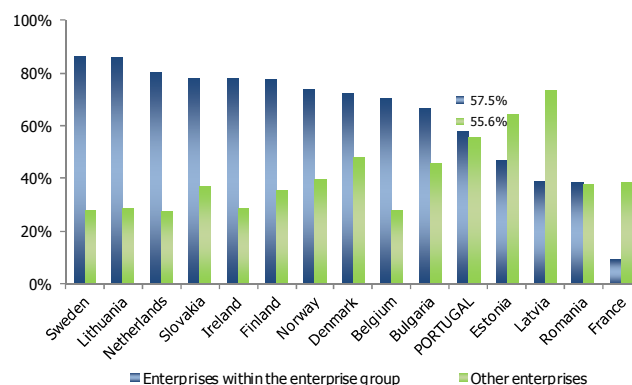
Share of enterprises with International Sourcing of R&D and Engineering, by European country, 2009-2011



R&D and Engineering functions were also often sourced abroad by enterprises in overall 15 participating countries.

57.5% of enterprises carried out International Sourcing with partners within the enterprise group

Type of business partners for International Sourcing, by European country, 2009-2011

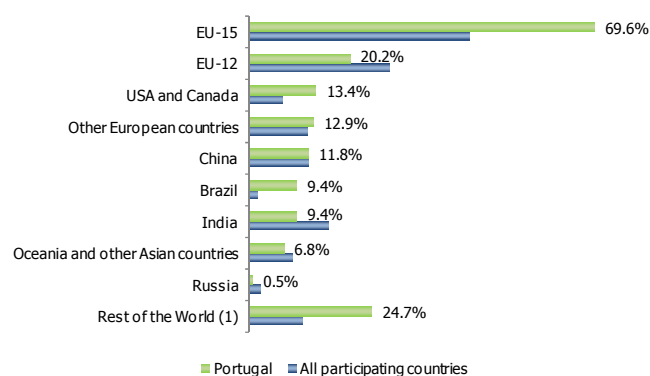


In most participating countries, the preferred business partners for International Sourcing were enterprises belonging to the same enterprise group, supported by

the decisive role of multinational enterprises as the driving force of Globalization and International Sourcing.

69.6% of enterprises carried out International Sourcing with partners located in the EU-15 countries

Destination countries for International Sourcing, 2009-2011¹



In Portugal, about 70% of enterprises carried out International Sourcing with partners located in one of the EU-15 countries. It's also noteworthy that a considerable number of Portuguese enterprises sourced business functions to the Rest of World (24.7%), although a large part of that sourcing abroad was related with PALOP countries. Yet, individually, PALOP countries were chosen by 17.3% of the Portuguese enterprises, corresponding to the third most chosen destination, after the EU-15 and EU-12 countries.

Destination countries for International Sourcing, by business function, 2009-2011



EU-15 countries were the first destination chosen by Portuguese enterprises for the International Sourcing of both core business and support business functions (more than 60% of enterprises in both cases). PALOP countries ranked 2nd as the destination for International Sourcing of core business functions (24.9%) and 3rd for support business functions.

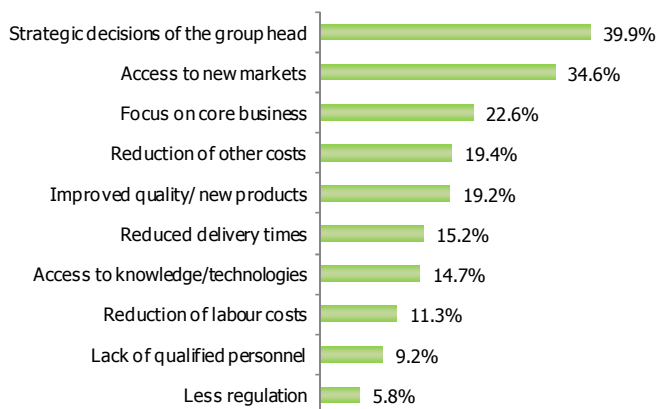
Strategic Decisions taken by the group head were the main motivation for International Sourcing for **39.9%** of enterprises

PALOP countries ranked 2nd as the favourite destination for International Sourcing of core business functions

¹ To enable international comparisons, in this graph the aggregate Rest of the World includes PALOP countries.

Motivation factors for carrying out International Sourcing, 2009-2011

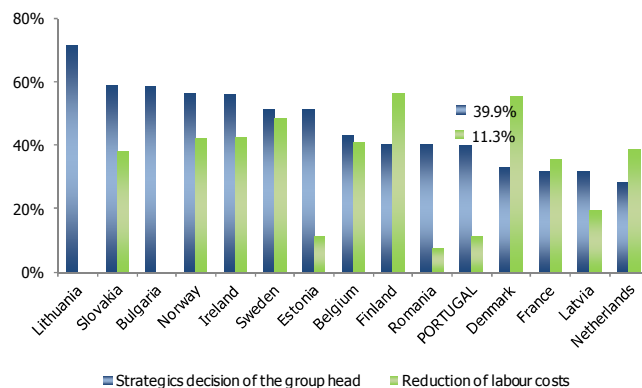
(Share of total enterprises with International Sourcing)



In Portugal, in line with the high percentage of enterprises engaged in international sourcing belonging to an enterprise group, the strategic decisions taken by the group head were considered the main motivation for sourcing functions abroad by around 40% of enterprises. Access to new markets came up as the second most important motivation for around 35% of enterprises with international sourcing, which is closely related to the growing importance of emerging countries such as Angola, China and Brazil as business partners. It should be noted that on the first wave of results, covering the period 2001-2006, only 2.8% of enterprises sourced activities towards PALOP countries, quite far from the 17.3% observed in the period 2009-2011. In what concerns Brazil, 8.0% of Portuguese enterprises sourced some of their business functions towards this country between 2001 and 2006, which stood 1.4 p.p. below the 9.4% recorded in 2009-2011. The percentage of enterprises that sourced functions towards China increased by 1.5 p.p. between these two reference periods.

Motivation factors for carrying out International Sourcing, by European country, 2009-2011

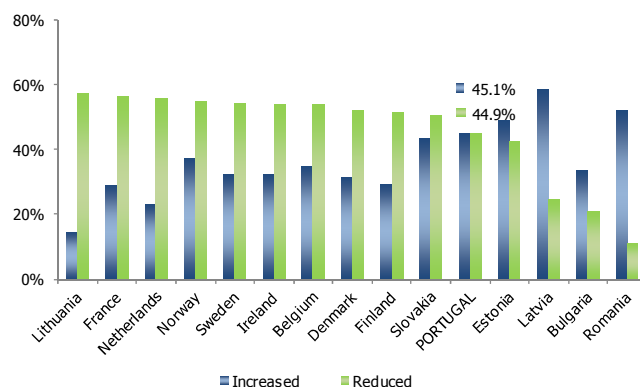
(Share of total enterprises with International Sourcing)



In the European context, strategic decisions taken by the group head and reduction of labour costs were the most important motivation factors when deciding on sourcing internationally.

**In 10 of the 15 participating countries an
employment reduction resulted from International
Sourcing**

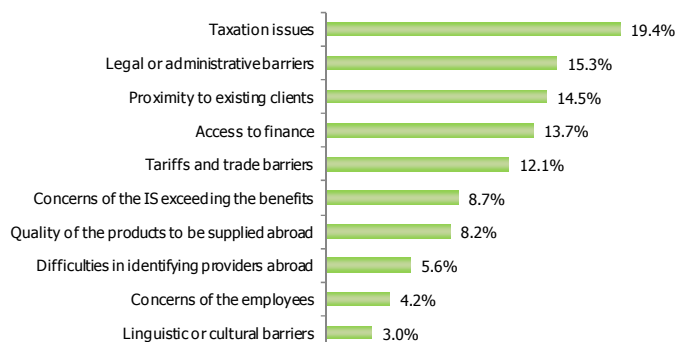
Evolution of employment resulting from International Sourcing, by European country, 2009-2011



Taxation issues were the main barrier to
International Sourcing for 19.4% of enterprises

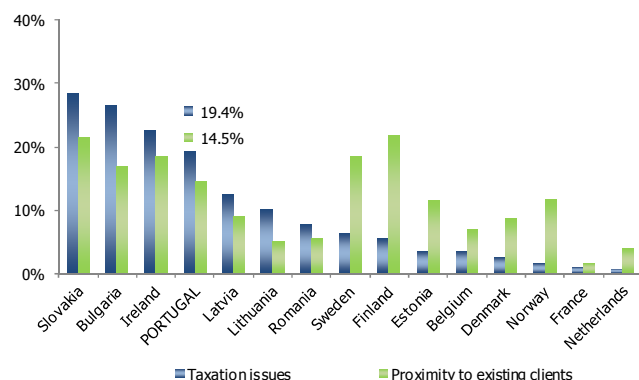
Barriers for carrying out International Sourcing, 2009-2011

(Share of total enterprises)



Barriers for carrying out International Sourcing, by European country, 2009-2011

(Share of total enterprises)

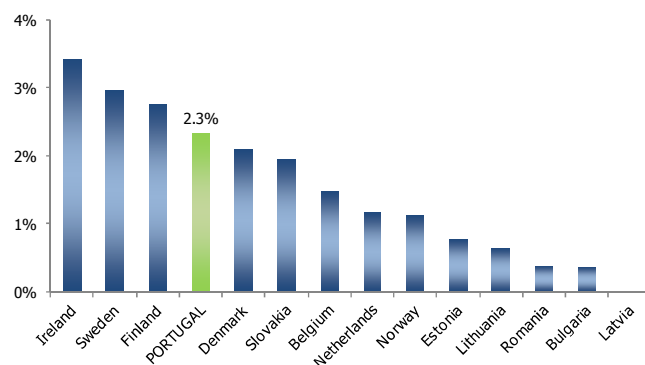


The need to be close to the existing clients and taxation issues were considered by the enterprises within the participating countries as the most important barriers for International Sourcing.

1.2. INTERNATIONAL BACKSOURCING IN THE PERIOD 2009-2011

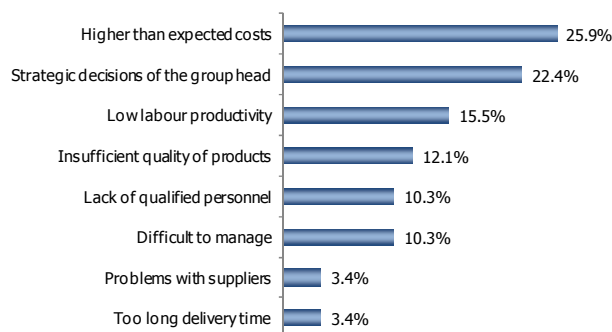
2.3% of enterprises with 100 or more persons employed sourced back to Portugal business functions moved abroad before 2009

Share of enterprises carrying out Backsourcing, by European country, 2009-2011



Higher than expected costs were the main motivation for the Backsourcing of business functions for **25.9%** of enterprises

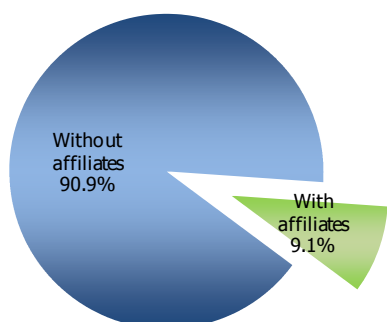
Motivation factors for enterprises carrying out Backsourcing, 2009-2011



1.3. PORTUGUESE FOREIGN AFFILIATES ACTIVITIES IN THE PERIOD 2009-2011

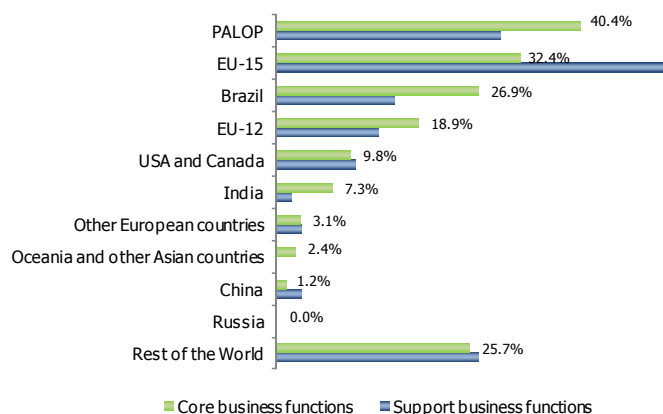
9.1% of enterprises with 100 or more persons
employed had foreign affiliates in 2011

Share of Portuguese enterprises with foreign affiliates, 2011



PALOP countries amongst the favourites for
enterprises with affiliates carrying out their business
functions

Destination countries of foreign affiliates, by business
function, 2011

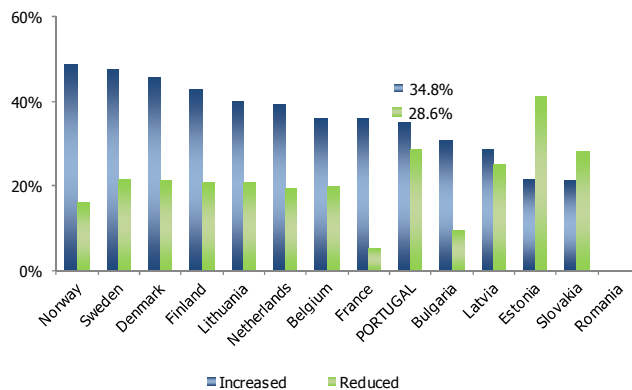


About 40% of Portuguese enterprises had affiliates located in PALOP countries performing part or the

totality of their core business functions. On the other hand, about 52% of enterprises had affiliates in EU-15 countries with at least one support business function sourced.

34.8% of enterprises recorded an increase in the
employment of their foreign affiliates

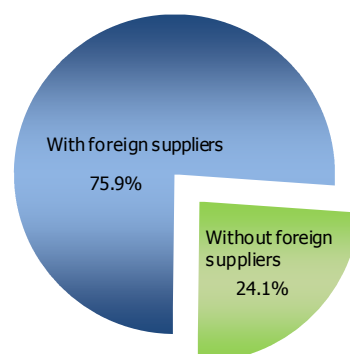
Evolution of employment in foreign affiliates, by European
country, 2009-2011



1.4. CONTRACTED ACTIVITIES TO FOREIGN SUPPLIERS IN THE PERIOD 2009-2011

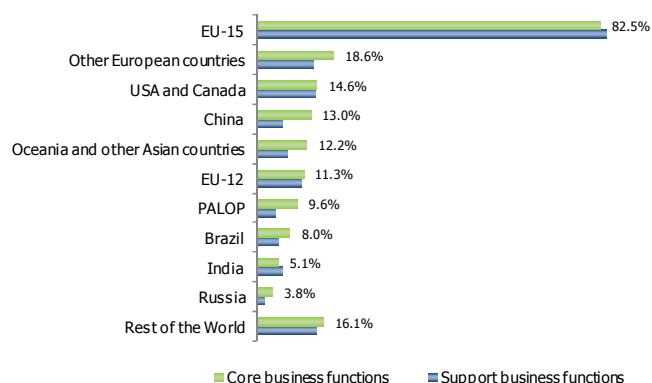
24.1% of enterprises with 100 or more persons
employed had foreign suppliers in 2011

Share of Portuguese enterprises with foreign suppliers, 2011



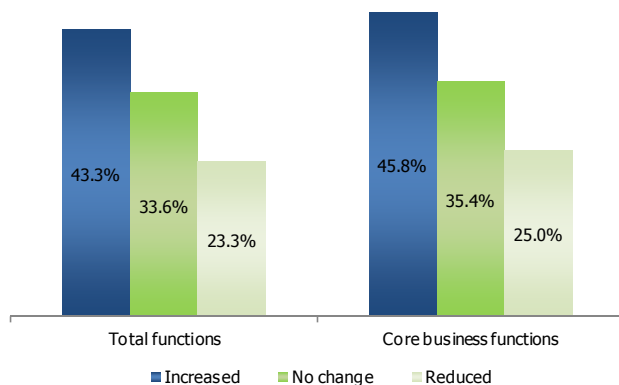
More than 80% of enterprises contracted functions to foreign suppliers located in EU-15 countries

Origin countries of foreign suppliers, by business function, 2011



43.3% of enterprises increased the contracting of business functions to foreign suppliers

Evolution of use of supplying abroad with foreign suppliers, by business function, 2009-2011

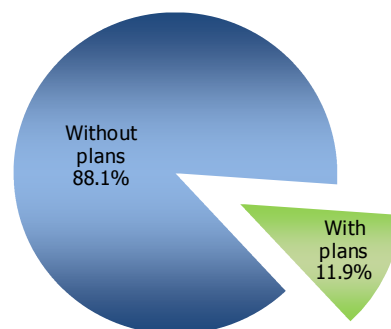


2 – ECONOMIC GLOBALIZATION IN THE PERIOD 2012-2015

2.1. INTERNATIONAL SOURCING IN THE PERIOD 2012-2015

11.9% of enterprises with 100 or more persons employed planned to carry out International Sourcing in 2012-2015

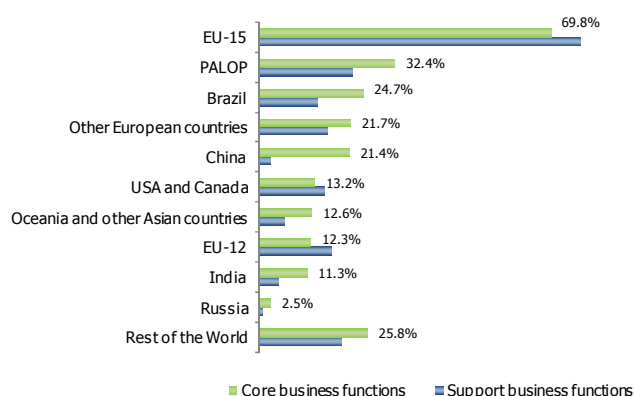
Share of Portuguese enterprises planning to carry out International Sourcing, 2012-2015



About 12% of enterprises with 100 or more persons employed reported to have plans for sourcing business functions abroad in the period 2012-2015. This share increases to 56.4% for the subset of enterprises that effectively carried out International Sourcing between 2009 and 2012.

UE-15 and PALOP countries were the main destinations to carry out International Sourcing of core business functions in the period 2012-2015

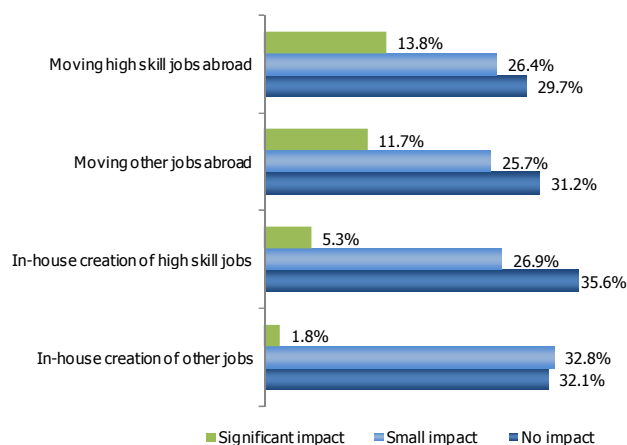
Destination countries for International Sourcing, by business function, 2012-2015



EU-15 countries came on top as the preferred on the list of destinations, with more than 69% of enterprises' choices in the period 2012-2015. PALOP and Brazil were also relevant as possible future locations for International Sourcing of core business functions, mentioned by 32.4% and 24.7% of enterprises, respectively.

Moving high skill jobs abroad identified as the main impact of International Sourcing on employment in the period 2012-2015

Perception of the impacts of International Sourcing on the employment of Portuguese enterprises planning to carry out International Sourcing, 2012-2015

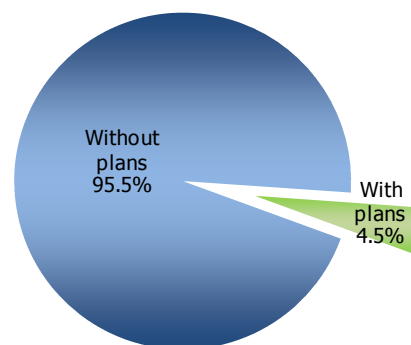


About 40% of enterprises with plans to carry out International Sourcing in the period 2012-2015, perceived an impact on their employment through the movement of high skill jobs abroad.

2.2. PLANS TO CHANGE THE ACTIVITY OF PORTUGUESE FOREIGN AFFILIATES (CURRENT OR FUTURE ONES) IN THE PERIOD 2012-2015

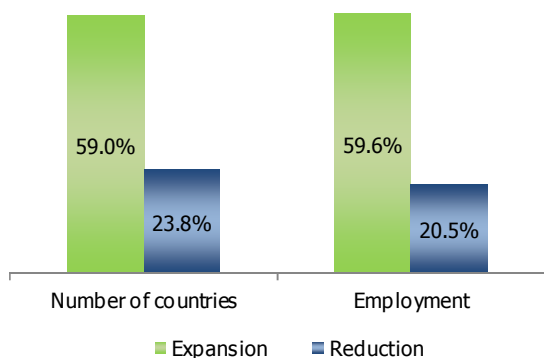
95.5% of enterprises with 100 or more persons employed have no intention to change the activities of their foreign affiliates (current or future ones) in the period 2012-2015

Share of Portuguese enterprises planning change the activity of their foreign affiliates, 2012-2015



More than 59% of enterprises with future plans expect to expand the number of countries and the employment of their foreign affiliates

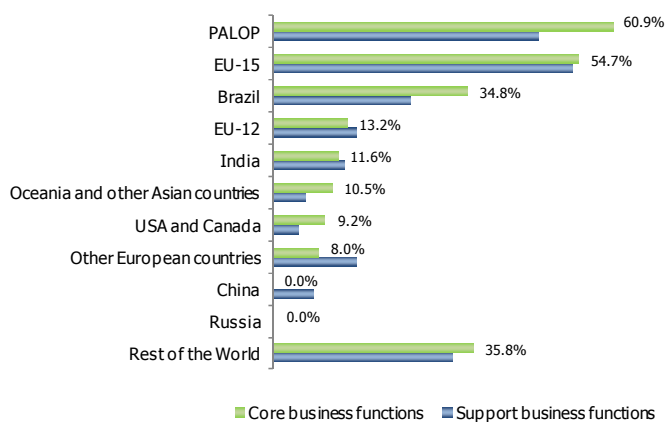
Expected evolution of the number of countries and foreign affiliates' employment, 2012-2015



More than 59% of enterprises planning to change the activity of their affiliates abroad (current or future), have the expectation of growth in the number of countries with established affiliates as well as an increase in foreign affiliates' employment during the period 2012-2015.

PALOP countries as the favourite for expanding activities of Portuguese affiliates abroad (current or future) in the period 2012-2015

Destination countries for expanding activities of foreign affiliates, by business function, 2012-2015



Methodology:

Statistics Portugal (INE) disseminates the main statistical findings from a survey conducted in 15 European countries between May and October 2012 for the reference period of 2009-2011. The participating countries were: Belgium, Bulgaria, Denmark, Estonia, The Netherlands, Ireland, Finland, France, Latvia, Lithuania, Norway, Portugal, Slovakia, Romania and Sweden.

In Portugal, the population frame included enterprises in activity during the 2009 fiscal year with an head office in Portugal Mainland or in the Autonomous Regions of Azores and Madeira, with 100 or more persons employed and classified under sections B to N (excluding section K) of the Statistical Classification of Economic Activities in the European Community, Revision 2 (NACE-Rev.2). This population frame included a total of 2496 units. The sample size was 1000 enterprises and the population frame was stratified by NACE-Rev.2, at a section level. The distribution of the sample by stratum was proportional to the total of persons employed. For sample selection purposes, a random number with uniform distribution in 0 to 1 intervals was generated. Within each stratum, the enterprises were in an ascending order according to that number, having been selected n enterprises to which corresponded n minor random numbers. Data collection was made through an electronic questionnaire and the response rate was 92.2%.

In the analysis of results two major sectors of economic activity were considered: Manufacturing (sections B to E of NACE-Rev.2) and Other sectors (sections F to N, excluding K from NACE-Rev.2).

Random comparisons were made between the two waves of this survey. The first one, carried out in 2007, covered a period of 6 years, from 2001 to 2006, while the second one, carried out in 2012, covered only 3 years, from 2009 to 2011.

Main concepts and definitions:

Group head – Legal unit of a group of enterprises which is not controlled (directly or indirectly) by any other legal unit.

Core Business – Main business of an enterprise or organization.

Foreign affiliate – Enterprise located abroad, controlled by a Portuguese enterprise.

Business function – A function carried out by the enterprise within the scope of its current activity, either being a *core business* function or a support function, with the purpose of facilitating the production of goods and/or services to the market.

International BackSourcing – Movement of functions back into the country, which the enterprise has previously moved abroad.

Sourcing – Total or partial movement of business functions so far carried out by the resident enterprise, whether being *core business* or support business functions, to other enterprises located in the country or abroad with which the enterprise had group relations (insourcing) or not (outsourcing).

International Sourcing – Total or partial movement of business functions so far carried out by the resident enterprise, or under domestic sourcing, whether they represent its core business or a support business function, to other enterprises located abroad with which that enterprise has group relations (insourcing) or not (outsourcing).

Notes: The following situations do not fall under the category of International Sourcing: Movement of business functions abroad without the reduction of the activity and/or job positions in the original enterprise; temporarily subcontracting abroad (considering one year as the time limit).

Contracting – Delegation of the supply of work procedures needed to the productive process of the enterprise itself and executed by other enterprises, with which there are no group relations, through the celebration of a contract.

Abbreviations and explanatory notes:

NACE Rev.2 – Statistical Classification of Economic Activities in the European Community, Revision 2.

R&D – Research and Development.

PALOP – African countries of Portuguese official language, including: Angola, Cape Verde, Guinea-Bissau, Mozambique and São Tomé e Príncipe.

ICT – Information and Communications Technologies.

EU-15 – Includes Member States of the European Union who became members before May 1st 2004: Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, The Netherlands, Ireland, Italy, Luxemburg, United Kingdom and Sweden (within the scope of this study, Portugal is not included).

EU-12 – Includes Member States of the European Union who became members on May 1st 2004 and on January 1st 2007: Bulgaria, Cyprus, Slovenia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Czech Republic, Slovakian and Romania.

EU – European Union.

Bibliography:

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<http://smi.ine.pt/DocumentacaoMetodologica>

Eurostat, International Sourcing of Business Functions – Statistics Explained, June 2013:

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/International_sourcing_of_business_functions

Information to users:

Further data with regard to Structural Business Statistics are available in the Official Statistics Portal at:

<http://www.ine.pt>

Statistics Portugal would like to thank all those who have contributed to the making of this study, especially the enterprises that have provided us the needed data to produce these statistics. We would also like to thank all remarks and/or suggestions aiming at improving the making of future studies.