

**“MNEs impacts on local development:
The case of knowledge-intensive
services in Mexico”**

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Outline

- Knowledge intensive SME's and GVC
- Mexican context
- Methodology brief
- Findings of initial research
- Preliminary conclusions

Importance of Knowledge Intensive Services (mainly provided by SME's)

- The service sector has been recognized as one of the most important economic activities (OECD, 2000).
- The growth in services integrated into manufacturing is a central process in this new state of a *tertiarized* economy.
- Industry 4.0 is the best demonstration of the convergence of services in manufacturing.
- Connected cars: the overall market value of the components and related services will grow significantly

High-Tech SMEs and their source of origin

There is a growing interest in high-tech Spin-offs and Start-ups in Mexico in aspects such as: market entry mechanisms; technological transfer; their role in the development of medium and high technology clusters, and; their impact in the regional economy.

Bussines Spin-off is a new firm founded by ex-employees through processes of interactive learning and innovation, in order to commercialize a technology that was originated in private organizations with proved technological and innovation capabilities, mostly MNEs in Mexico (MNE-GVC).

Start-ups, the entrepreneur started a new firm without experiences or knowledge of specific technologies from previous employment. They are based on resources such as knowledge and technological capabilities that were originated by the entrepreneur through linkages with institutions and organizations of the Regional Innovation System (RIS).

Mexican context

MNE's and SMEs formation -*Spin-off type* (2009)

Does the MNEs in Mexico participated in the formation of SMEs?

→ 1,746 MNE's operating in Mexico

3,667 new SME's (*spin off*)

139,346 employees

35% are suppliers to the MNE's (previous employer)

Source : Contreras and Carrillo, 2011

MNE's & SMEs formation -*Spin-offs type*

Case Study (2016)

Survey in the northern States (2016-2018)

Survey in the Bajio and southern States (2018-2020)

Methodology brief

- An interview with 5 MNE's was conducted
 - 3 automotive OEM's
 - 1 global electronics firm
 - 1 medical device manufacturer
- A survey with 10 local service suppliers for each MNE.
- Results are considered as an initial approach to understanding the dynamics of local service suppliers.

Insights for MNE's

- No specific policies to develop service suppliers, but see convenience.
- 75% of firms said they had increased local content in recent years (both goods and services).
- Service supplier selection criteria prioritize: fast response, compliance with confidentiality and other policies of MNE's, closeness and specialization.
- In contrast, less relevant criteria include: country of origin of the supplier, exclusive supplier, administrative compliance (insurance, financial reports, etc.)

Insights for KIBS

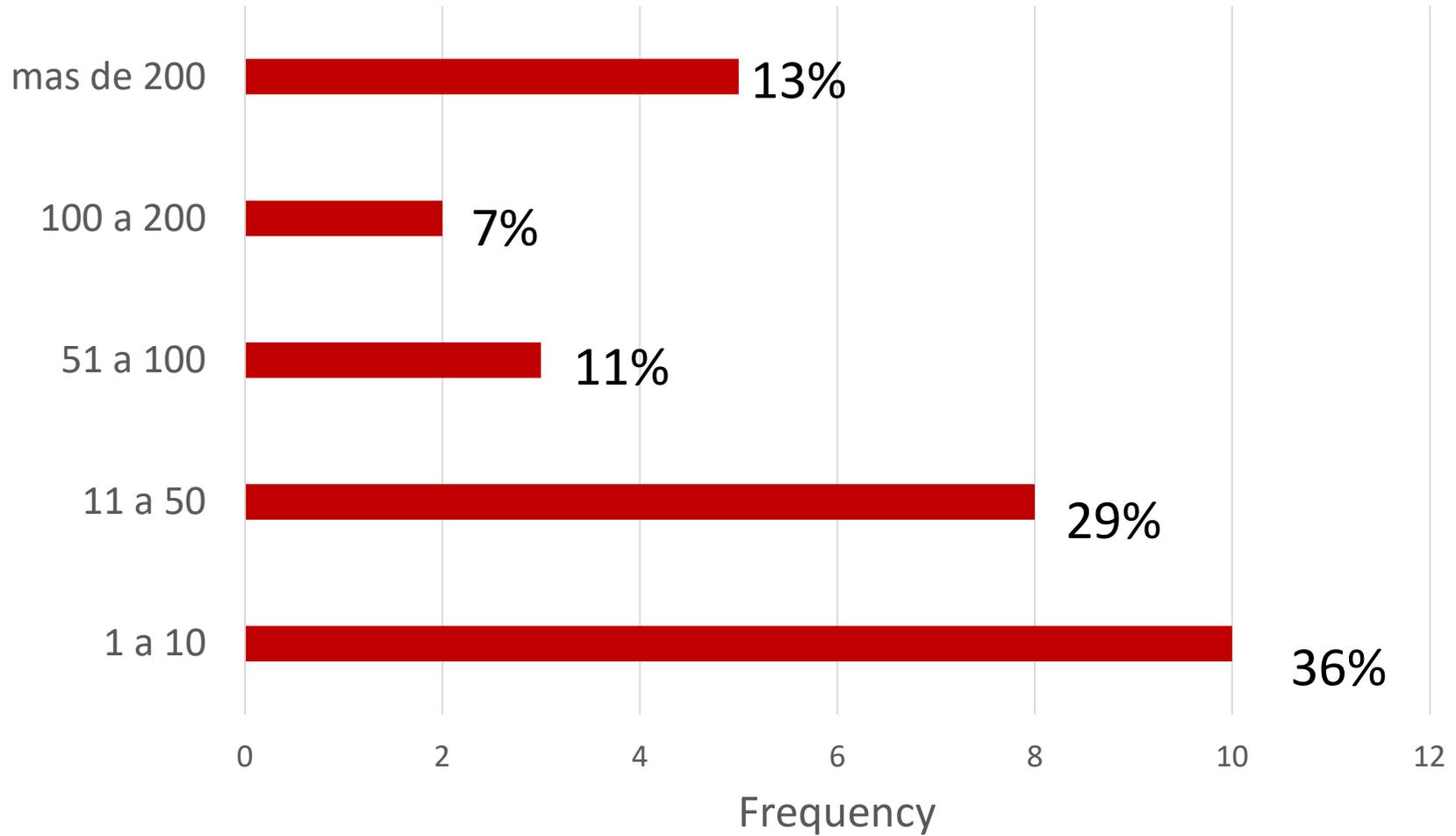
- 98% are Mexican investment and one case is a co-investment with a foreign company
- 95% located in the same city as the MNE's plant they are serving
- 65% have just a single location

- 38% of employees have university degree or above
- 65% classify themselves as family-owned
- 17 years in business as an average

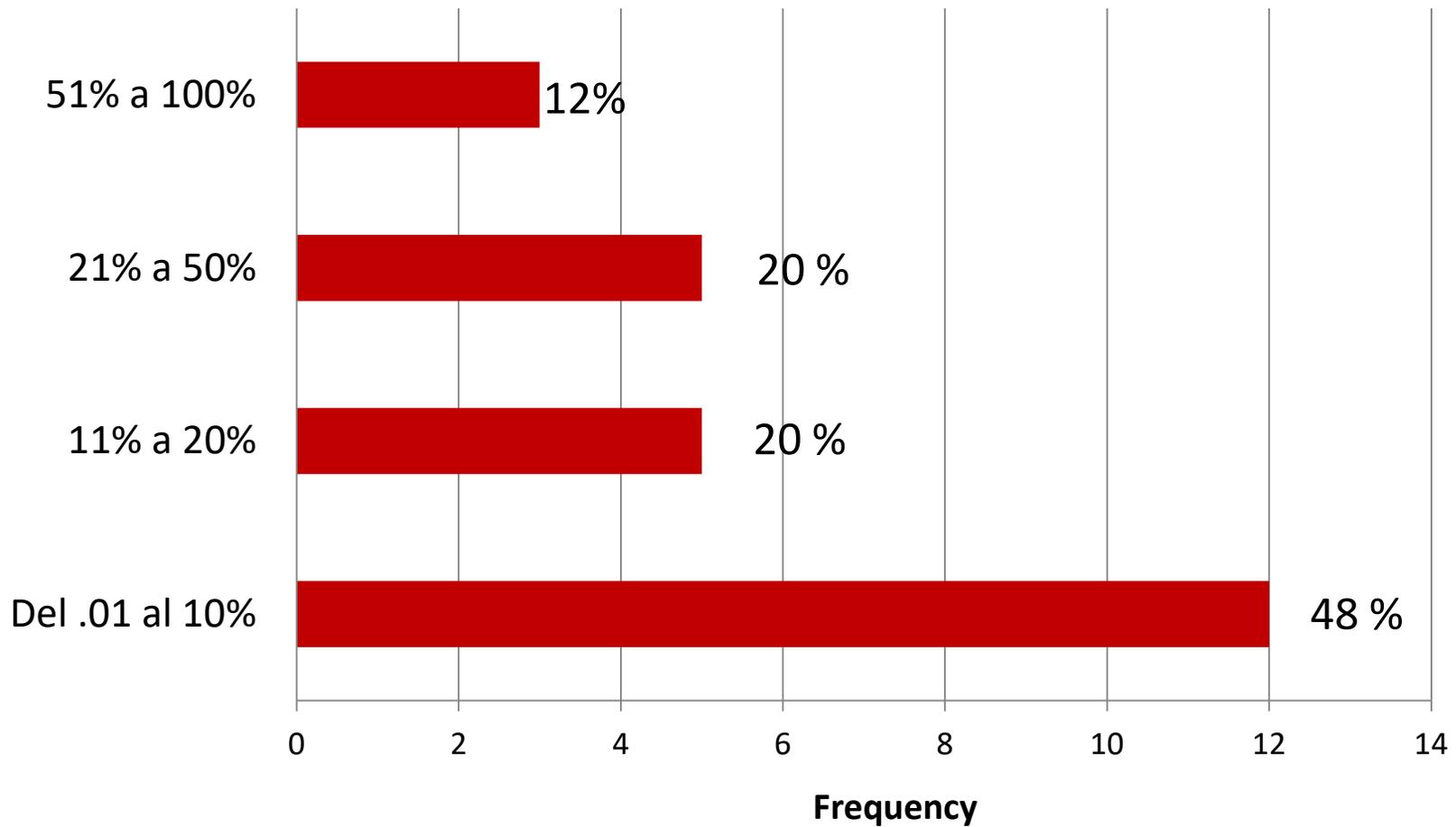
Areas of specialization



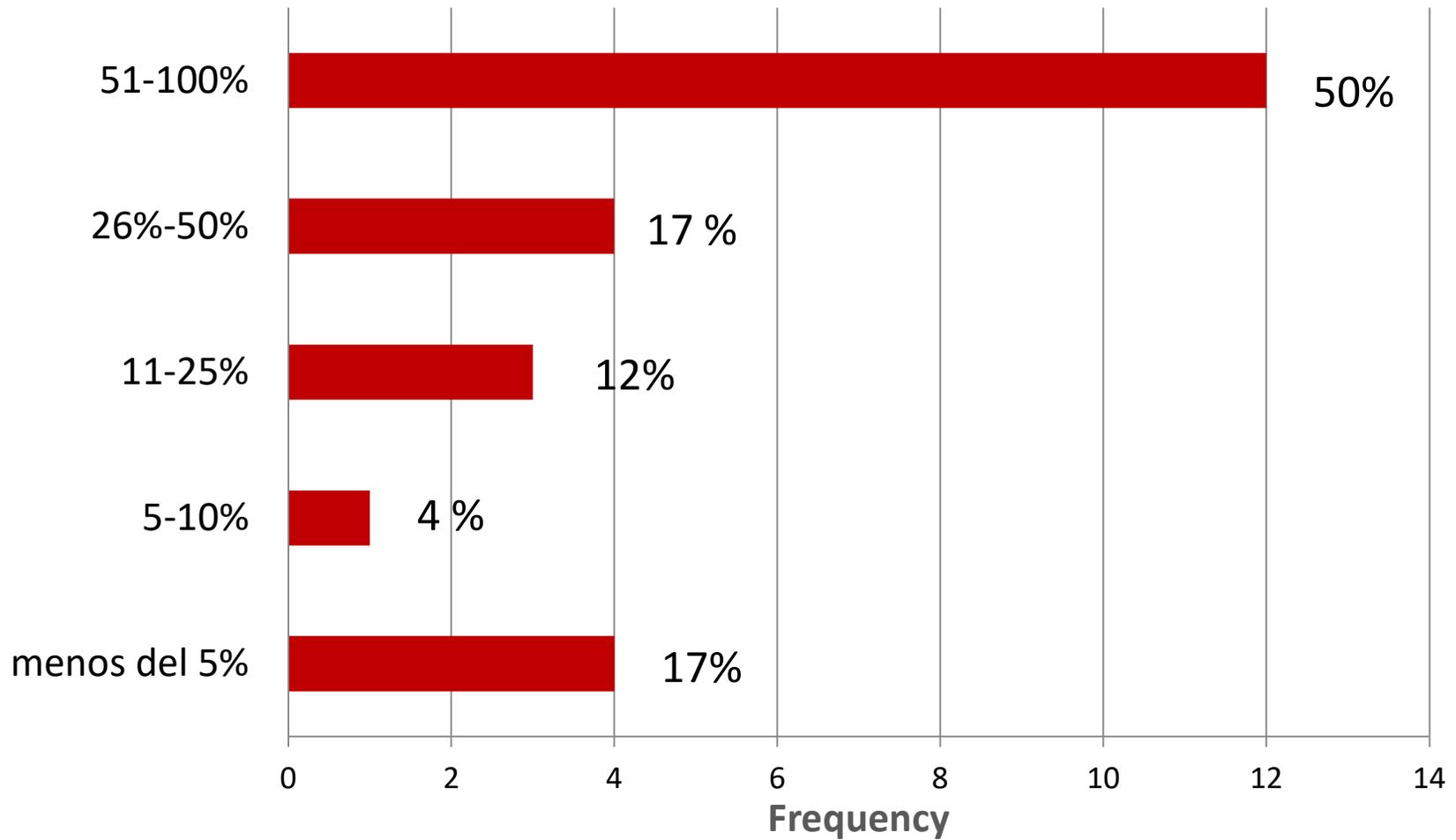
Number of clients served



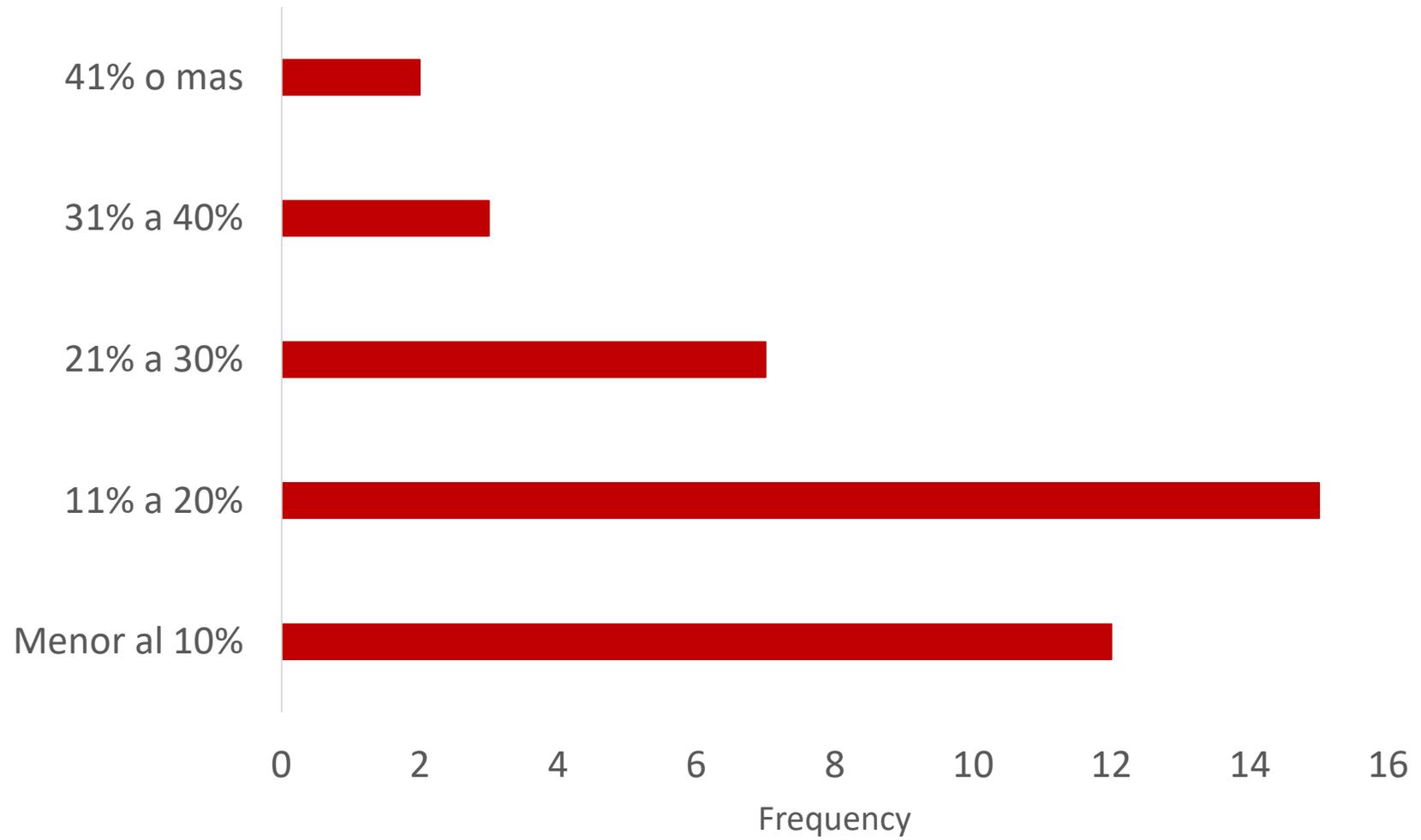
Sales to referring MNE (from total sales)



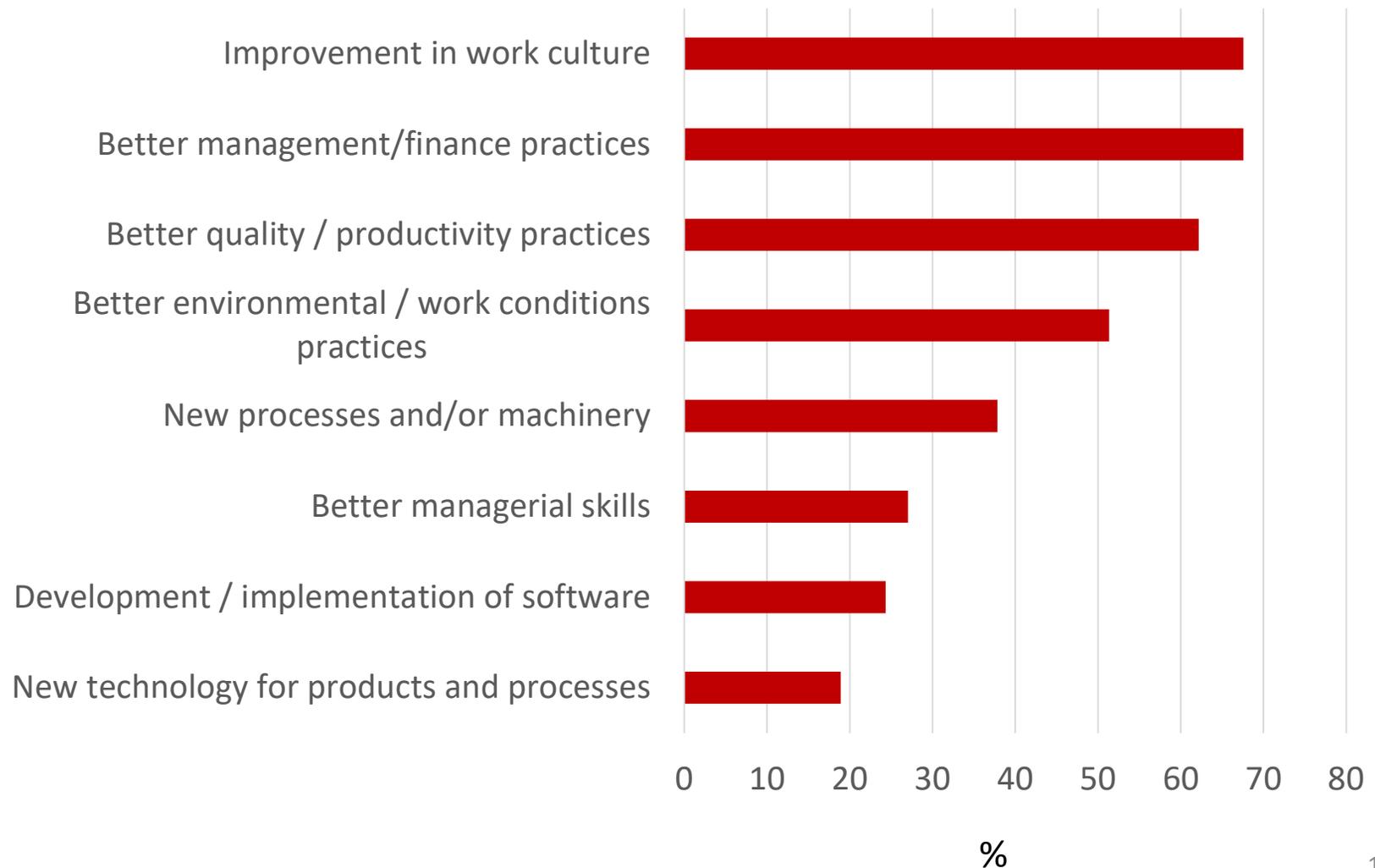
Sales to other MNE's (from total sales)



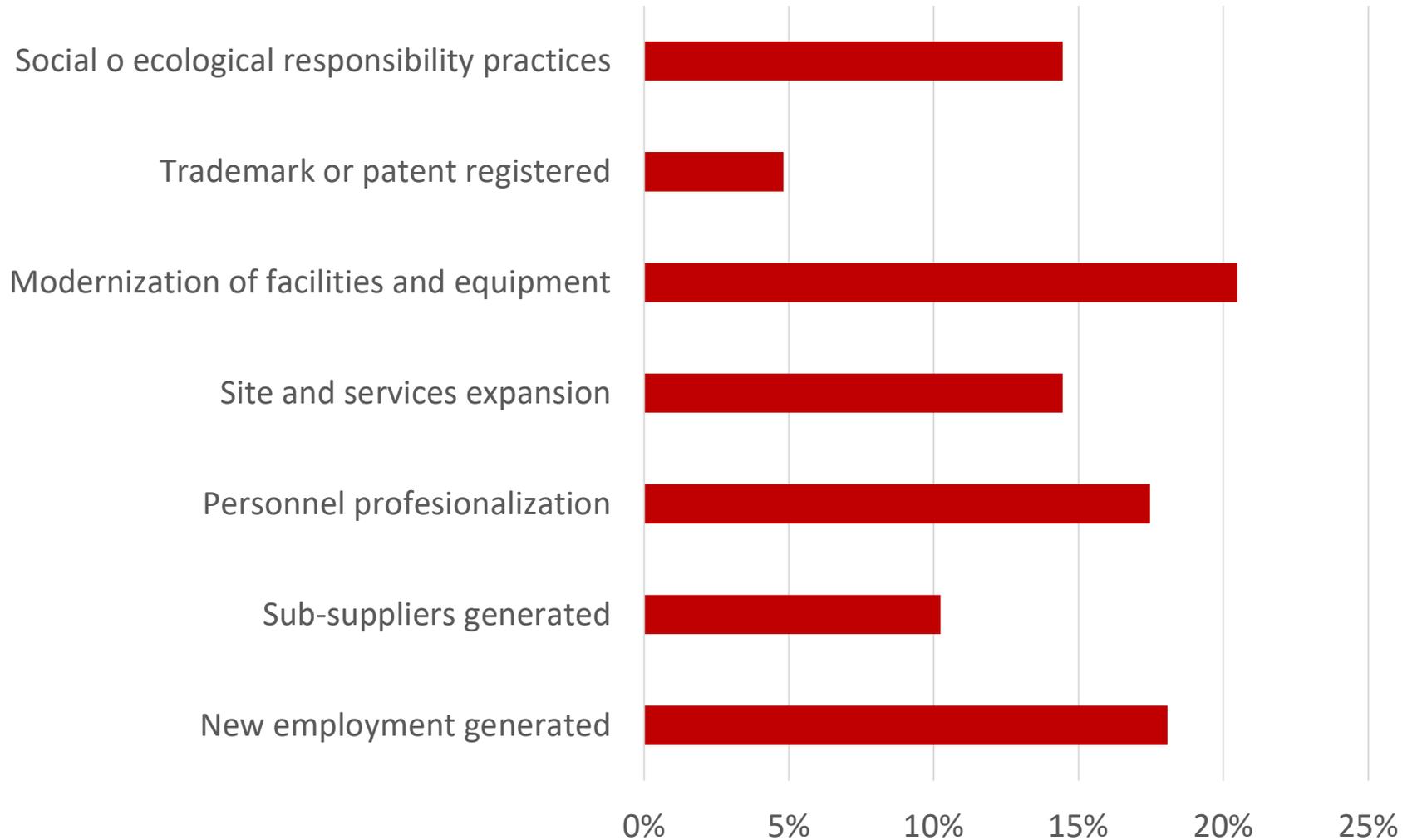
Gross margin



Type of learning from interaction with MNE's



Collateral impacts



Preliminary conclusions

- Service suppliers are less vulnerable to market fluctuations, due to having a larger client base, not exclusive to specific MNE.
- Different logic in price negotiations allow for a higher profit margin.
- They specialized in areas that are not the core business of the MNEs, allowing for a higher level of specialized skills and competences.

Preliminary conclusions (2)

- Market opportunity has driven the organizational development of this firms
- Significant and diverse spillovers show that specialized service suppliers have a large opportunity for capturing value.
- As external services to manufacturing increase, we expect more opportunities for future development.

Thank you!

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Importance of Knowledge Intensive Services (mainly provided by SME's)

An unattended area of studies on the local effects of MNE's in Mexico is that related to their connection with local service provider companies.

How do they contribute to development of services provision through local supplier companies?

Importance of Knowledge Intensive Services (mainly provided by SME's) (2)

Improvement processes in SME's can be stimulated by their participation in the GVC due to the knowledge transfer / spillover:

1. Technology spillovers
2. Support / technical assistance
3. Learning / labor pool mobilization