

Professor John R. Bryson, Birmingham Business School, University of Birmingham – Written evidence (PBS0017)

Professor John R. Bryson, FAcSS, holds the Chair in Enterprise and Economic Geography, University of Birmingham. In 1990 he undertook the first ESRC funded UK project on business and professional services (BPS)¹ and in 2002 the first detailed study of BPS in the West Midlands. This on-going research agenda includes the publication of a book on service trade, three research monographs on business and professional services² and a book in press on *Service Management* (2020). He advised the European Commission on the development of the Services Directive and the single market in services. In 2013-14 he was responsible for drafting the European Commission's report on services, internationalisation, and trade.

1. How important are the different UK professional and business services sectors to the UK's economy and trade in services? Please include data where possible.

There is a tendency to adopt a very narrow definition of business and professional services (BPS). This sector *should be defined as all organisations providing any form of service and/or support that adds value to other private, public and third sector organisations.*

There are two points to make. First, the BPS sector is extremely heterogeneous. Every BPS subsector has distinct characteristics. The diversity is such that one could argue that there is no such thing as a BPS sector. Nevertheless, it is possible to divide the sector into:

Knowledge-intensive business services (KIBS) include all types of professional services (law, accountancy, architecture) and business services (training, recruitment, consultancy, market research, tax advisors, design and computer-related services including cybersecurity.

Goods-related services that are more capital-intensive including distribution and storage of goods, facility management, security services, catering, couriers, and telecommunications.

BPS services provided by manufacturing companies.

Second, BPS firms make two contributions to GDP and employment. They create GDP and employment, but also enhance client GDP, employment creation, innovation, and productivity. *The BPS sector makes two contributions to UK trade. They make a direct contribution by exporting services overseas, but they contribute to indirect internationalisation in which BPS services are embedded*

¹ Bryson, J.R. Wood, P. and Keeble, D. (1993b) 'Business networks, small firm flexibility and regional development in UK business services', *Entrepreneurship and Regional Development*, 5, 3: 265-277

² Bryson, J.R. (with Rusten, G.(Bergen, Norway) (2011) *Design Economies and the Changing World Economy: Innovation, Production and Competitiveness*, London: Routledge; Bryson J.R. and Daniels P.W. (2015), *Handbook of Service Business: Management, Marketing, Innovation and Internationalisation*, Edward Elgar: Cheltenham

and exported within physical goods and other services. The [World Input Output Database](#) (WIOD, OECD) revealed that in 2015, service value-added content contributed 33.7% of gross manufacturing exports from the UK with the highest shares being in Food and Beverages (39.7%), Basic Metals (37.2%) and Motor Vehicles (37.2%).

The future of the UK economy relies on continued innovation and growth of BPS firms. BPS inputs are heavily wrapped within and around the production processes of companies engaged in exporting. They add value by smoothing relationships between production and consumption, for example, via market research, design and advertising. They play a significant role in underpinning the competitiveness of UK firms and in exporting services to overseas clients.

Manufacturing companies are increasingly creating BPS related service products. This reflects the on-going servitization of manufacturing. These BPS products include training and service packages, technical services, and the transformation of physical goods into services³. *In all international trade negotiations the UK government must ensure that business service markets in third countries are open to UK service providers, including services provided by manufacturing companies.*

2. What are the UKs different professional and business services sectors' key priorities for the future UK-EU relationship? What are the key priorities of smaller professional and business services providers and providers from the UK's regions and devolved nations in particular?

The answer to this question depends on how a BPS firm is engaged in international business. For some this involves setting up a presence in a foreign market for other firms it involves the relocation of service providers or clients or exporting services. For small BPS firms located in the UK regions the key is to ensure the continued growth of local demand. This may be regional or national demand within the UK. There are two types of smaller BPS firms. First, those in which the most of their business is with the UK and thus they provide an indirect contribution to trade. Second, those who include a focus on foreign transactions. It is worth noting that there is a tendency to assume that the best expertise is in London. This is not the case. *BPS expertise initially emerges to meet local demand related to regional economies. This expertise may become of national and of international importance.* Each regional economy develops specialist BPS expertise to support the local economy. For example, BPS developed in Edinburgh to support Edinburgh fund management industry.

It is important to understand the mechanisms by which BPS firms engage in trade⁴. There are four modes: i) exports, ii) consumption abroad involving consumers relocating to acquire services, iii) commercial presence or foreign direct investment or iv) the temporary relocation of service providers to deliver services to consumers located in another country. Mode 3 accounts for the

³ Bryson, J.R. (2009), *Hybrid Manufacturing Systems and Hybrid Products: Services, Production and Industrialisation*, University of Aachen: Aachen.

⁴ Bryson, J.R., Sundbo, J., Fuglsang, L. and Daniels, P.W., (2020), *Service Management: Theory and Practice*, Palgrave London, in press

majority of service internationalisation given the importance of local service delivery through the establishment of a commercial presence. Mode 1 is next in order of importance and much of this is accounted for by the provision of digital content. This is followed by the movement of consumers (Mode 2) including those seeking leisure-, educational- or medical-related services. Different service sub-sectors require very different business models and internationalisation strategies. Even within the same firm different approaches to internationalisation will have developed that include exports, FDI and employee or consumer movement.

It is possible to identify three approaches to BPS internationalisation. First, are a group of firms that are classified as star-based highly creative BPS firms which do not require foreign offices. The competitive advantage of these firms is based on the reputation and individual creativity of 'star' professionals. International transactions either occurs through exports or third parties. The second group are more process-based creative BPS firms that have developed services that can be exported. Third, are firms which develop direct relationships with clients located in foreign countries through the establishment of local offices which may deliver all local services or services may be co-created with service employees located in the UK.

3. What preparations (if any) have UK professional and business services providers made, or planned to make, ahead of the end of the transition period?

For some firms, this involves shifting activity to their network of offices located elsewhere in the EU, for example some restructuring to Dublin which may involve the relocation of professional employees.

4. What provisions should the Government seek to negotiate to minimise potential barriers to trade, particularly for smaller professional and business services providers? What steps should the Government take to preserve the competitiveness and innovation capacity of the UKs different professional and business services sectors?

It is important to develop an inclusive and integrated approach. Thus, the UK plays an important role in training designers. This has led to an international network of professional designers that are very much aware of the UK economy. It is important that a visa system is in place that encourages, maintains, and enhances the UK's location as a core centre for the training of specific types of BPS professional.

This inclusive approach should appreciate the different ways in which BPS firms engage in trade – relocation of professionals and clients with implications for visas and related restrictions including cost and, more importantly, processing time, exports which may be provided using on-line platforms with possible GDPR and data related issues and establishing foreign offices. For smaller firms there are capacity and capability issues and for such firms it is important that the regulations are transparent and procedures not unduly onerous.

Significant shortcomings in the EU Single Market for services were noted in the [2014 report of the European Commission's High-Level group on Business Services](#): "Shortcomings in the Internal Market – excessive bureaucracy and fragmented legislation; barriers to entry (especially for SMEs) and taxation and insurance regimes that inhibit cross-border trade - all slow down the pace at which European Business Services firms can react. A key issue is the growth of administrative burdens". *The UK needs to learn from this by including a focus on reducing the administrative burden placed on smaller BPS firms.*

5. What type of arrangements should the Government seek to negotiate with the EU for the mobility of professionals?

First, maintaining recognition of professional qualifications and ensuring that non-tariff barriers related to qualifications do not emerge to displace UK professionals from EU markets. Maintaining some degree of parity with the EU Professional Qualifications Directive would be important. Qualification recognition across the BPS sector should be considered. The EU directive only covers regulated professions. Second, maintaining access to EU clients that require mobility of professionals and or clients. Third, support firms to address skill shortages by facilitating recruitment of BPS professionals from the EU and elsewhere⁵.

UK BPS firms need to be able to temporarily relocate key service professionals to deliver contracts overseas. There are restrictions on such movements including complexities related to taxation. Establishing an overseas office initially may require the temporary relocation of UK based employees or the relocation of European nationals to the UK for training.

6. How important are arrangements on the mutual recognition of professional qualifications to professional and business services providers in the UK and EU? How could a future UK-EU agreement best allow for this?

Professional qualifications are a primary non-tariff barrier to trading BPSs. These may prevent trade or may operate as an indirect barrier related to the inability to obtain insurance. For some BPS sectors the importance of international mobility is increasing as larger firms develop international project teams. This includes the provision of engineering services. For engineering, the engineering card is a professional card designed to support mobility by documenting and validating educational and professional qualifications.

Mutual recognition of professional qualifications must include a focus on any annual compulsory training requirements. It is worth noting that there is variation between EU Member States regarding legislation related to compulsory training.

⁵ Bryson, J.R. and Daniels, P.W. (2008), 'Skills, Expertise and Innovation in the Developing Knowledge Economy: The Case of Business and Professional Services', *International Journal of Services Technology and Management*, 9: 3/4: 249-267

7. What provisions should the Government seek to agree with the EU on cross-border investment and rights of establishment?

Foreign direct investment accounts for a significant proportion of BPS trade. The rights of establishment are critical for supporting key BPS sectors. A UK based architectural practice may win a competition to design a building in a European city. This would entail establishing a local office. This might be a temporary establishment, or this office might win further contracts. This involves mobility of BPS professionals and the rights of establishment.

8. Should there be regulatory cooperation between the UK and the EU on professional and business services? If so, what form should such cooperation take?

The key here is to ensure that non-tariff barriers (standards, annual licence to practice, qualifications, management and regulation of data including data protection, visas, time restrictions on temporary mobility, or restrictions based on income or task) do not emerge. Nevertheless, there is a real danger that EU regulation stifles innovation. Continual innovation by BPS firms is critical and facilitates on-going internationalisation. It is worth noting that for larger clients cost of expertise is irrelevant compared to quality or the ability of a BPS firm to provide an appropriate solution.

9. What lessons, if any, can be learnt from the EU's existing trade agreements with other third countries including services, or negotiations on trade in services?

There are a number of lessons from my involvement with the European Commission on the Services Directive and service internationalisation.

First, considerable work is still required to develop an open and inclusive single market for services across the EU. The EC has not recently undertaken significant activity to remove barriers that continue to undermine the operational effectiveness of the Services Directive.

Second, EU trade negotiations must not separate services from manufacturing as this might undermine the ability of European firms to export services combined into product-service bundles. This highlights that the boundaries between services and physical products have become blurred.

Third, to develop a longer-term approach. This includes encouraging foreign interns to work in EU based firms for a limited period. This type of activity extends the associate and client networks of EU BPS firms and leads to additional opportunities to engage in international trade. The interns return home and become key decision-makers.

Fourth, an emphasis placed on the development of EU standards to support the Services Directive and service internationalization. This includes technology standards, measurement methods and key performance indicators, specifications related to a specific type of service, codes of practice and standards related to processes.

10. To what extent could UK-EU trade in professional and business services continue in the absence of a UK-EU agreement covering services? How effective would the WTO General Agreement on Trade in Services be in supporting such trade, and what arrangements (if any) could be put in place to go beyond the WTO framework?

For goods it is a comparatively simple task to track the movement of physical goods as they cross national boundaries. This is much harder for services, and especially for services that are provided remotely. New technologies have allowed the consumption of some services to be decoupled from the location of providers. This makes it difficult to tax these types of decoupled services. In addition, the intangibility of services makes it difficult to specify in a trade agreement what is provided and to what standards. For services, non-tariff barriers operate to reduce international trade, and these include regulations regarding the right to practice and the requirement for local accreditations including professional qualifications. There are obvious strategies to removing UK based BPS firms from the EU market. These could operate at the level of the single market or be applied differently by each Member State. I would anticipate some combination of the two and this reflects the relative immaturity of the single market for services.

A key issue is related to data security and the relationship between any UK based BPS firms and professionals and approaches to safeguarding the security of EU data, and vice versa.

Another issue concerns the protection of the interests of a consumer caused by negligence of a foreign professional who is no longer in the jurisdiction. The EU Services Directive deals with this issue within the EU, but this is not dealt with by GATS.

11. If there were no reciprocal data adequacy arrangements in place between the EU and UK by the end of the transition period, what would the implications be for professional and business services providers?

Rapid adjustment and improvisation by existing BPS firms including shifting the management of some contracts to offices located in the EU. Data adequacy arrangements would be a major stumbling block if no reciprocal arrangements are in place. This depends very much on the sector and on the nature of the service that is delivered.

12. What opportunities (if any) could the UK's withdrawal from the EU offer to the UK's professional and business services providers?

There are a few scenarios. First, business as usual with some gradual adaptation as new non-tariff barriers emerge. In this scenario the best UK firms will continue to engage in FDI and service exports. Second, the development of an active approach by the UK government to support BPS internationalisation including a focus on BPS services provided by manufacturing companies. This could lead to significant growth. *A key issue is to ensure that any discussions regarding manufacturing do not limit the market for services provided by*

manufacturing companies. Third, BPS firms are experiencing the first phase of a period of radical disruptive innovation based on big data and related data analytics. This is altering the nature of their competitive advantage by transforming high-value added services into price-sensitive commodities. It is critical that the UK fosters an environment that is supportive of innovation within BPS including innovation facilitated by rapid adoption of AI. This will lead to the creation of new high value BPS services⁶.

My experience of working with the EC on services included an appreciation of the value of the investment made initially by the US on developing the Manual on Statistics of International Trade in Services. This provided the US with considerable advantage in any trade negotiations involving services. This highlights the value placed on measuring and monitoring international trade. This is an important issue as it underpins trade negotiations, and taxation. There are opportunities to encourage academic research via UKRI investments that would underpin future trade negotiations.

The political and media discussions over Brexit failed to appreciate the value that is provided by the UK legal system. There was a danger that EU standardization via the EU Court of Justice would gradually assimilate the UK legal system into the EU system. This would have been disastrous. The UK must recognise the additional value provided by the UK legal system to national competitiveness. The key issue is contact law related to the provision of financial services. This is one of the reasons for London's emergence as a global financial centre and as preferred jurisdiction for certain types of global investment. This highlights the interrelationships between the wider framework conditions – regulations and institutions – that support BPS firms, and competitiveness combined with internationalisation.

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⁶ Gardner E. & Bryson J.R. (2020), 'The dark side of the industrialisation of accountancy: innovation, commoditization, colonization and competitiveness', *Industry and Innovation*, DOI: 10.1080/13662716.2020.1738915