

# **KNOWLEDGE-BASED SERVICES: INTERNATIONALISATION AND REGIONAL DEVELOPMENT**

Edited by James W. Harrington and Peter W. Daniels

## **Introduction**

*International and Regional Dynamics of Knowledge-Based Services*

**James W. Harrington**, University of Washington

Information, organised and conceptualized to serve as useful knowledge, forms the major input, the major product, and a primary strategic asset for many service providers – across private, public, and not-for-profit sectors. Thus, information acquisition and organisation motivate the processes through which these providers gain their inputs, interact with other organisations, hire and train their workers, and service their markets. From a geographic perspective, these processes influence the paths that knowledge-based service providers take as they attempt to gain footholds in international markets, and the ways in which services providers operate under varied local circumstances. This book offers theoretical and empirical insights into these processes and paths. Each author ultimately emphasizes the special attributes of knowledge acquisition and diffusion within and across organizations, and the consequent roles that these structurally important firms and institutions play in regional economic development.

## **Part One: CONCEPTUALISING KNOWLEDGE-BASED SERVICES**

*Service Worlds and the Dynamics of Economic Spaces*

**Sam Ock Park**, Seoul National University

This chapter considers spatial interaction in the context of advanced services, and the consequent dynamics of economic spaces. Transferability, knowledge-genesis, networks, collaboration, and hierarchy of control are suggested as key determinants of spatial interaction among knowledge-based activities. Intensified spatial divisions of labour, clustering of advanced services, internet-based services, globalised networks of services, and virtual innovation clusters are identified as the major influences on the dynamics of economic spaces in service worlds. In-depth surveys regarding electronic commerce by Samsung Electronics and innovation networks in the Sunchang region support the importance of these interaction determinants. The dynamic integration of these determinants of interaction in the knowledge-based information society has resulted in the dynamic and controversial economic spaces in core and peripheral areas such as clusters and global networks; intensified spatial division of labour and virtual innovation clusters. The chapter concludes by drawing policy implications for developing areas or peripheral regions.

*Embodied Knowledge Flows and Services: An Analysis of Six European Countries*

**José Camacho** and **Mercedes Rodríguez**, University of Granada

Service activities are dramatically increasing their participation in the production processes and, as a result, they account for the bulk of the value added in most industries. Within this

context, the aim of this chapter is to calculate the embodied R&D flows that are generated in the supplying of services in six European countries: Denmark, Finland, France, Germany, Spain and United Kingdom, using a modified version of the methodology applied by Papaconstantinou *et al.*. The results obtained demonstrate the strategic role that services, and in particular KIBS, are playing in the innovation domain.

*Towards M-Tourism: A Case of Technological Change and Innovation in Services*

**Christian Longhi**, CNRS and University of Nice Sophia Antipolis

Technological and organisational innovations have dramatically altered the organisation of and markets for tourism. The tourism sector has not only been able to absorb the knowledge bases and technological changes of related provider sectors, but has worked as an engine of change with strong capabilities for innovation. E-tourism encompasses a huge share of e-commerce, and several related technologies have been developed by the main actors in the tourism sector. This chapter's study of services underlines the interdependence among business models, organisational forms, and technologies. The concept of system of innovation allows us to understand the changes of the organisation of the industry and markets in tourism, and to trace the upheavals to come. The literature on technological change and innovation is often closely related to manufacturing, and seldom associated with services. By highlighting the specificities of innovation in this sector, Longhi suggests that, contrary to manufacturing, organisational change is always closely associated to services' innovation processes.

## **Part Two: INTERNATIONALISATION OF SERVICES**

*Spatial Divisions Of Expertise And Transnational Service Firms*

**John Bryson**, University of Birmingham, and **Grete Rusten**, Institute for Research in Economics and Business Administration, Bergen

The literature on global cities suggests that the most valuable and 'world-class' expertise is to be found in the global cities; these are the command and control centers of global capitalism. Yet this literature does not address to any great extent the ways in which transnational service companies combine expertise developed and maintained in a variety of different geographical contexts, many of which lie beyond the global cities. This chapter explores the organisational spaces of transnational professional service firms. These firms are developing and exploiting a complicated functional and spatial division of labour/expertise in which local expertise is increasingly mobilised globally. Such mobilisation is developed by creating virtual and actual spaces of social interaction that are intended to ensure that transnational service firms utilize the value of their knowledge base. The approach developed in this paper combines perspectives developed in the literatures on global cities and transnational corporations by exploring the spatial divisions of expertise that exist within global service suppliers. Global cities may appear to be the major locations for the provision of knowledge intensive services, but, in many instances, clients and experts meet and work together outside these cities. The point is that there are other spaces of interaction (physical, social virtual, organisational) that lie beyond the global cities and that increasingly understanding the operation of the global knowledge community implies that geographers focus on addressing

the organisation of production and the ways in which this interacts with a variety of different places.

*Internationalisation of Management Consultancy Services: Conceptual Issues Concerning the Cross-Border Delivery of Knowledge Intensive Services*

**Joanne Roberts**, University of Durham

This chapter explores international management consultancy services in order to identify conceptual issues concerning the cross-border delivery of knowledge-intensive services. A definition of management consultancy services and an account of their growth and development is followed by a discussion of the internationalisation of UK management consultancy services, and a review of the cross-border transfer of knowledge. The role of management consultancies in the cross-border transfer of knowledge is then considered, to construct a framework that illustrates the various mechanisms through which knowledge transfer occurs in the cross-border delivery of management consultancy services. The chapter concludes with an agenda for further research.

*The Globalisation of the European Headhunting Industry*

**Jonathan V. Beaverstock**, Loughborough University, **James R. Faulconbridge**, Lancaster University, and **Sarah J.E. Hall**, Loughborough University

In the late twentieth century, a plethora of studies focused on the role of services in economic development, not surprisingly given their growing share in trade and FDI and the remarkable influence of transnational service corporations in the world. Case studies reported that internationalisation was driven by the desire to deliver bespoke products to clients through international offices so that quality control, reputation and trust would remain internalised within the firm. The secret, yet omnipresent, world of headhunting (elite executive search and selection) provides a unique case study to investigate the contemporary globalisation of a transnational service industry whose success is built upon the firm's knowledge-rich workforce, trust relations with clients, reputation and flexible modes of strategic operations (office networks, secondments to clients, team work). Headhunting emerged as a global industry from the USA and Europe as a consequence of the global spread of FDI by the key headhunting firms who were striving to become TNCs, coming to age during the 1980s 'boom' in cities like Chicago, New York, London, Paris and Brussels. Like other producer services, headhunting has become a highly concentrated industry, dominated by the Big Six (Spencer Stuart, Korn Ferry; Russell Reynolds, Boyden, Heidrick & Struggles and Egon Zehnder), and supported by a constellation of SME 'boutiques'. After the USA, Europe is the most significant market for the activities and locational dynamics of headhunters in the world, and therefore, it is Europe that is the object of the study. This chapter unpacks the strategic importance of headhunting as a key European industry for the recruitment of executive labour, and sheds theoretical light on the complex processes which drive globalisation and deepening of transnational service firms in a mature market. Drawing upon extensive data on headhunting firms in Europe, we trace the longitudinal nature of their growth and changing locational dynamics. Finally, the authors comment on the challenges facing headhunting firms in Europe as they restructure operations, for example from wholly owned models to members of strategic alliances, to penetrate new markets and remain competitive in a very concentrated sector of the world economy.

*Internationalisation of Japanese Professional Business Service Firms: Dynamics of Competitiveness in Southeast Asia*

**Patrik Strom**, Göteborg University

Among OECD countries, Japan's economy has a relatively small share of the GDP and employment that is generated by the tertiary sector. Additionally, Japan runs large trade deficits in service trade and has a very low export ratio to total service production. In the international service industry few Japanese multinationals are more competitive than most of the dominating Western firms. Why does it seem that Japan lags behind in terms of service industry development and internationalisation? Have the specific organisational drivers within the Japanese business environment influenced the international competitiveness of Japanese service firms? This chapter seeks to answer these questions through a study of Japanese professional business service firms active in Japan and Singapore. The facts that Asia over the last three decades has seen tremendous economic growth and that Japan has played an important part in this regional development should create good business opportunities for Japanese business service firms. The relative geographical closeness to many of the rapidly growing economies in Asia along with the large inflow of Japanese foreign direct investment could act as a ground for a better position of Japanese firms than the highly competitive business service markets in North America and Europe. By using a case-study method with in-depth interviews in ten firms, this chapter explains why and how Japanese firms have chosen to locate in Singapore in relation to their natural Asian presence through the Japanese head office. Additionally, the organisational structure and relationships with clients and competitors will be addressed. The results reveal the importance of Japanese related business and how the complex ownership structures within the *keiretsu* groups affect the regional competitiveness. The results can further be used in comparative research on Western market leading firms, which are active competitors even in the domestic Japanese market.

**Part Three: KNOWLEDGE-BASED SERVICES AND REGIONAL DEVELOPMENT**

*Towards Post-Industrial Transition and Services Society? Evidence From Turin*

**Paolo Giaccaria** and **Vincenzo Demetrio**, University of Turin

The transformation of regional economies from manufacturing towards services relies on varied structural mechanisms that act on specific sectors. In addition, these development mechanisms interact with the different institutional, social, and cultural histories, giving origin to distinct models of post-industrial capitalism. After an analysis of structural and institutional change in the Turin region, the authors conclude that its transition towards a service economy presents some similarities with the neo-industrial model as defined in the literature, but with some peculiar differences. Survey analysis suggests that there is a strong commitment of service firms towards establishing cooperative networks within the region. This is particularly evident in the relationships of service related firms to innovation and research facilities within the metropolitan area.

*Post-Secondary Education: Education, Training, and Technology Services*

**Hyungjoo Kim**, Korea Science and Technology Policy Institute and Sungshin Women's University, and **James Harrington**, University of Washington

Post-secondary education (PSE) has been increasingly emphasized in studies of and policies for economic growth and development. This chapter reports on a study of IT-producing firms' use of and interaction with PSE institutions. How distinct are the types, degree, and geography of services provided by different types of PSE institutions? Does geographic distance inhibit different types of interaction differently? Do firms' type and degree of interaction vary by size, sector, or region? While most research on relationships between higher education and industry focus on research-oriented, doctoral-degree-granting universities, this research includes baccalaureate colleges, community colleges, and technical colleges. The authors selected three MSAs based on characteristics of IT-producing industries and universities/colleges located in each area: Seattle, WA; Portland, OR; and Champaign-Urbana, IL. A total 80 IT-producing establishments responded to the on-line survey questionnaire between January and May 2004. Overall, the research findings support the oft-cited assertions that universities support economic development, and that this support is fairly localised. The findings suggest that lower- and non-degree-granting institutions (community, junior, community, and four-year colleges) play large roles, as do the doctoral and research universities more often studied in the academic economic development literature.

*Danish Regional Growth Strategy in the Marginal Areas based on Regional Partnership and Initiative*

**San-Chul Park**, Okayama University

This chapter explores how the Danish government has established policies to strengthen its knowledge-based economy and to carry out knowledge-based regional growth strategies. Knowledge-based economic growth affects the nature of regional economic growth and the interregional dynamics of growth, which are key policy concerns of the government. A unique strategy of developing niche technologies, and a growth strategy for marginal areas, have contributed to positive growth rates. However Denmark faces limitations in its technology industries, in part because its primarily small firms have been reluctant to carry out R & D activities.

*Urban Revival and Knowledge-Intensive Services: The Case Of the English "Core Cities"*

**Peter Wood**, University College London

The growth of tradable, expert knowledge intensive business services (KIBS) is a largely urban phenomenon, favouring larger cities and their regions. This has important implications for urban economic development, not just because of the growth and quality of KIBS employment itself, but also its influence on the success of other sectors. The regional development of KIBS reflects demands from other service, manufacturing, and trading functions, MNCs and other large firms, growth-orientated SMEs, regionally distinctive consumer and cultural sectors, and public agencies. The level and range of KIBS supply depends on a regional 'critical mass' of such specialist demands, as well as regional institutional and regulatory support. UK cities outside London face much greater challenges from the KIBS dominance of the capital than do comparable cities elsewhere in Western Europe. They thus need especially effective strategies to promote the coherent development

of tradable knowledge-based assets, extending across both the commercial and public sectors. This chapter examines the representation of KIBS in these ‘core’ English cities and their future prospects as nodes in the networked, knowledge-based economy.

*Innovation Activities of KIBS Companies and Spatial Proximity: Some Empirical Findings from Finnish New Media and Software Companies*

**Jari Kolehmainen**, University of Tampere

Knowledge-intensive business services (KIBS) have many roles in the current economy. Innovation studies have suggested that the innovation activities of service companies differ from traditional industrial innovation. In addition, studies highlight the importance of companies’ external networks within innovation activities and the role of continuous learning and incremental innovations. On the basis of this new “recursive” innovation model, many authors suggest that an appropriate local operational environment can have a positive effect on companies’ possibilities to innovate. To bring some clarity to this very complex and intriguing issue, Kolehmainen introduces the concept of local innovation environment. He argues that a local innovation environment consists of many interrelated elements ranging from the institutional setting to the behaviour of individuals. It is also argued that the local innovation environment can be divided into three levels: the structural and institutional level; the level of organisational relationships; and the level of individuals. These ideas were empirically examined from the perspectives of 105 Finnish new media and software companies. The empirical results parallel those of previous studies.

*Far Away So Close? Regional Clustering of Mail Order Firms and Related Business Services in the Lille Metro Area, France*

**Christian Schulz**, University of Cologne, **H. Peter Dorrenbacher**, University of the Saarland, and **Christine Liefoghe**, Universite des Sciences et Technologies de Lille

After the decline of traditional industries such as textile, iron and steel as well as coal mining, the regional economy of Nord-Pas-de-Calais/France has undergone a profound restructuring process in which advanced business services play a crucial role. One of the most remarkable evolutions is the formation of a highly specialised service cluster due to the presence of France’s major mail order houses, either succeeding or being founded by former textile companies. A large variety of knowledge intensive business services (e.g. logistics firms, PR consultants, designers and product photographers) constitute a localised network and apparently represent an indispensable environment for mail order firms. This chapter approaches this topic in two ways. First, a theoretical framework based on evolutionary approaches is discussed in order to conceptualise the emergence of these particular activities in an old industrial region. Second, results of an exploratory study are presented in order to document characteristic path dependencies and their impacts on the services sector in Nord-Pas-de-Calais. In addition, current tendencies and future prospects are discussed – not least with regard to the growing importance of internet retailing and e-commerce.