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Links to the international level: a study of the Finnish management-KIBS in terms of innovation system approach

Work in progress

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Introduction

“...[O]ne important role performed by business service firms is to link different scales of business activity together – from the global to the local. (...) Expertise, as well as processes (...) developed in one context are transferred by business service professionals from place-to-place as part of a complex evolving spatial division of expertise” (Rusten et al. 2005).

- Recently, there has been a growing interest to study and understand the role of KIBS in mediating innovation-related knowledge and information (e.g. Müller & Zenker 2001; Wood 2006) between firms, industries and different spatial levels
- The task of our forthcoming paper is to study the linking role of the business service firms by introducing new empirical data from a survey carried out in Finland. Through a combination of the empirical scrutiny and a theoretical elaboration of the complex issue, the paper also thrives to contribute to the ongoing academic discussion of the issue.



KIBS in innovation systems: theoretical perspectives I

KIBS firms as potential channels of (innovation) knowledge, at least three different issues to consider (relations, knowledge, reach):

- characteristics of KIBS-client relationships: e.g. one-off projects vs. continuous relationships; functions KIBS participate into; carried knowledge and role they have in their clients' innovation activities
 - sales, jobbing or sparring relations (Tordoir 1993, 1994, 1995)
 - facilitator, carrier or source for innovation or co-producer of innovation (Miles et al. 1995; den Hertog 2000; see also e.g. Bessant & Rush 1998; Gallouj & Weinstein 1997)
 - local, dislocated and distance insensitive interaction (Rusten et al. 2005)

KIBS in innovation systems: theoretical perspectives II

- active learning, search for external knowledge and an accumulation of knowledge within the KIBS firms vs. more characterized by 'business as usual' practices (existing routines, concepts and consulting tools)
 - distinctive innovation patterns within service firms (Gallouj & Sundbo 2000): R&D, professional services' development, organized strategic innovation, entrepreneurial, artisan and network.
- spatial 'reach' of the relationships the KIBS firms have (local to global)
 - SMEs tendency to favour co-located producers (Wood, 1998; O'Farrel et al., 1996)
 - Two KM practices (e.g. Faulconbridge 2006): knowledge transfer (i.e., the transfer of best practice) and knowledge creation through social learning.



KIBS in innovation systems: theoretical perspectives III

- Few studies on the internationalisation of innovation systems and the technological viewpoint strongly pronounced
- Non-technological innovations (e.g. design ideas, marketing strategies, organisational arrangements...) still overlooked (see Wood, 2005)
- In this study the focus on management-KIBS –sub-sectors: management consulting; advertising; and marketing, marketing communication and media services
- Their linking role between global and local:
 1. Specific business logics as to the level of internationalisation and commitment in customer-relationships
 2. Ways of fulfilling their assumed roles of knowledge-channelling



Description of the data

- Electronic survey + preceding snap-shot telephone-interview on the ways management-KIBS channel (or not) international level knowledge and enhance their customers innovation activities
- Collected by a private research firm: 448 interviews of executives in management-KIBS firms, 141 of which answered to the survey
- 47.5 % from firms located in the Finnish capital region Uusimaa and 85.8 % from firms employing less than 5 people, corresponding the reality of the Finnish economy
- Bias in the distribution between management-KIBS –sub-sectors: 36 (25.5 %) management consultancies, 77 (54.6 %) advertising agencies, 23 (16.3 %) marketing, marketing communication and media agencies - in 2006, firms categorized to business consultancy (Nace 74140, includes also marketing, marketing communications and media agencies) or market research (Nace 74130) amounted to double the number of advertising services (Statistics Finland, 2008)

Analysis

- Based on the electronic survey, with a few supporting questions from the telephone interview
- Explorative factor analysis => 20 factors describing the firms' level of internationalisation, innovation activities and customer relations
- Internationalisation score as a sum variable from nine related questions in the electronic questionnaire
- All standardised to increase commensurability (mean values yielding as 0 and standard deviation as 1 for the whole data)
- Cluster analysis in order to group the KIBS firms; concluded with a result of six groups for its most intelligible combinations of differentiating variables for each group
- Cross tabulation with management-KIBS -sub-sectors, geographical location and number of employees
- In final grouping 96 firms that had answered to all of the questions included in the chosen 20 factors

The 20 factors

- Development and support organisations as clients
 - Large companies as clients
 - Public and third sector organisations as clients
 - SMEs as clients
 - R&D organisations as partners
 - Support and funding agencies as partners
 - Business associations as partners
 - Private enterprises as partners
 - International experience
 - Knowledge transfer practices
 - Service innovation activities
 - Networking mode
 - Technology support
 - Incremental development mode
 - Sparring partner for client
 - Coaching/training partner for client
 - Partner for business activities and conditions development
 - Offering tailored services for enhancing clients' activities
 - Offering specialised support for internationalisation
 - Local competitive advantage
- + Internationalisation score



The clustered groups I: Local routine service producers

- *'Local marketing services'* (n=31)
 - some concentration towards SMEs as clients
 - 24 advertising and 6 marketing, marketing communications and media agencies (one unidentified)
- *'Routine services for large companies'* (n=24)
 - mostly large companies as clients
 - 4 management consultancies, 16 advertising and 4 marketing, marketing communications and media agencies
- Common features
 - low level of internationality
 - arms-length customer relationships, producing routine-services
 - strong representation in capital as well as large city regions, with some representatives also in smaller cities/rural areas



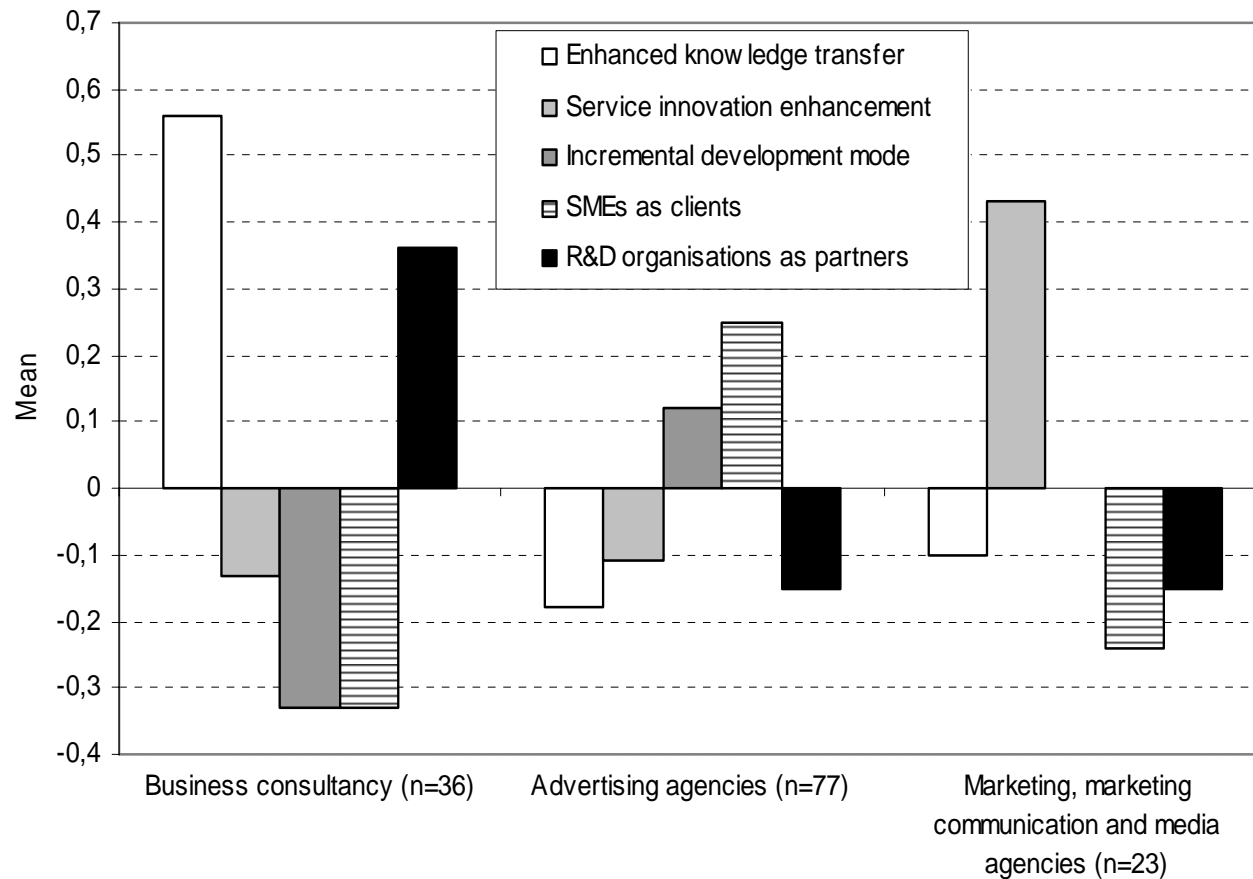
The clustered groups II: International partners

- *'International sparring partners'* (n=14)
 - mostly large companies as clients
 - 7 management consultancy agencies, 3 advertising, 2 marketing, marketing communications and media services, (2 undefined)
 - representatives in all kinds of city regions (capital city, large cities and small city regions/rural areas)
- *'International partners for support organisations'* (n=4)
 - no large companies as clients nor private companies as partners but notable cooperation with support organisations, funding agencies and some R&D organisations
 - management consultancies
 - no representatives in the capital city region
 - all micro enterprises
- Common features:
 - internationality, high level of international experience with some difference in internationalisation score in favour of sparring partners
 - involvement in development work with their clients and/or partners

The clustered groups III: National developers

- *'Innovative service producers for development and support organisations'* (n=12)
 - intra-organisational research and service development, offering customers predesigned service packages
 - 1 management consultancy firm, 7 advertising and 4 marketing, communication and media agencies
 - slight concentration towards smaller city regions (7/12)
- *'National developers and educators'* (n=11)
 - own service development with partners, and in cooperation with and for the client itself
 - 7 management consultancies and 4 advertising agencies
 - evenly represented in all kinds of (city) regions
- Common features:
 - service/competence development practices but with less involvement in clients' strategic decision making compared to international partners
 - low internationality
 - public or semi-public development, support and R&D organisations as clients or partners

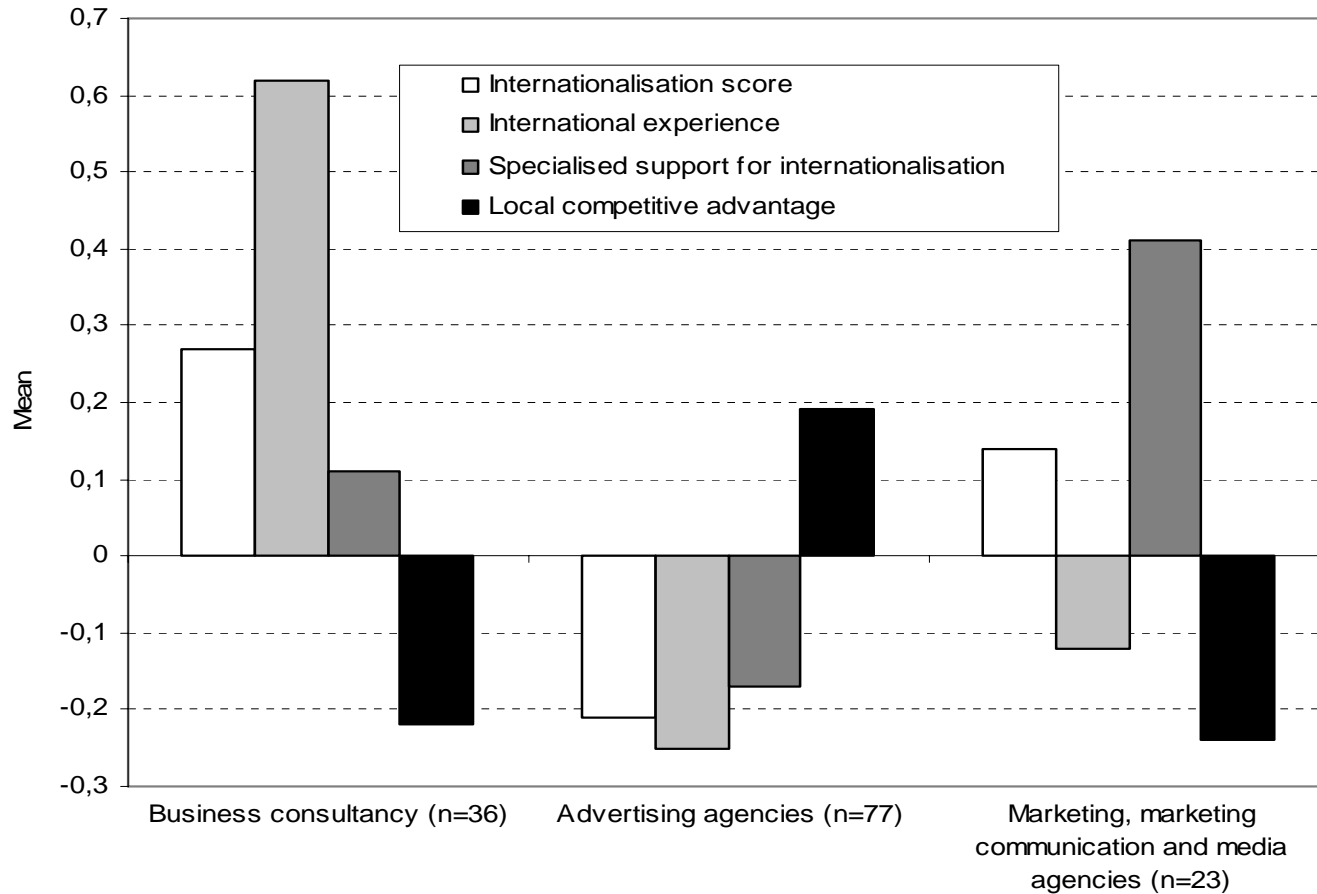
Differences between KIBS-sub-sectors I



Distinctive standardised, innovation-related factors between KIBS-sub-sectors (Sig. < 0.05).

(Standardised: mean=0, standard deviation=1 for the whole data)

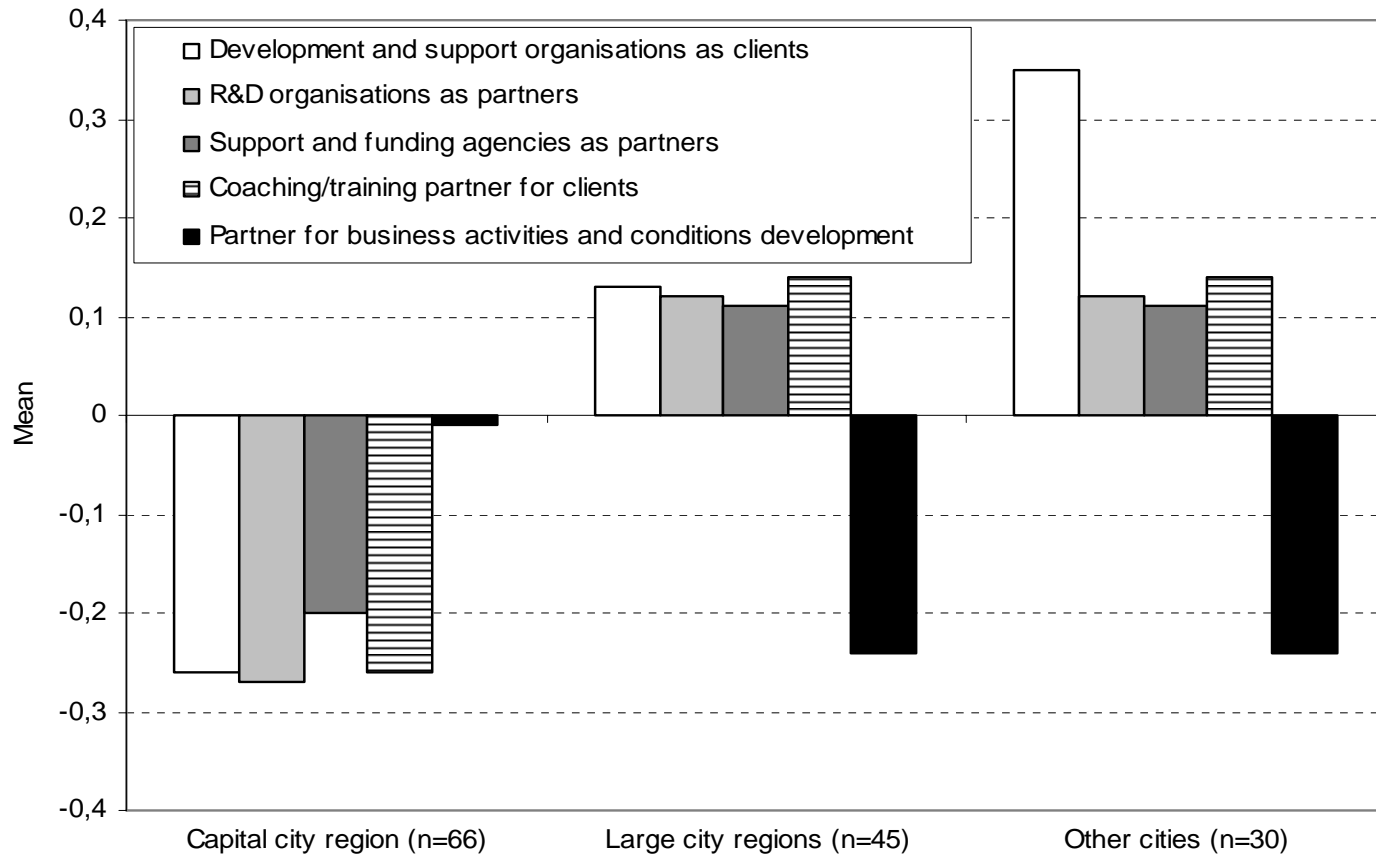
Differences between KIBS-sub-sectors II



Distinctive standardised, internationality-related factors between KIBS-branches (Sig. < 0.05).

(Standardised: mean=0, standard deviation=1 for the whole data)

Differences between city regions



Distinctive standardised, market/co-operation orientation - related factors between regions (Sig. < 0.05).

(Standardised: mean=0, standard deviation=1 for the whole data)

Large city-regions: Tampere, Turku, Oulu, Jyväskylä, Kuopio, Lahti, Lappeenranta-Imatra and Vaasa

Conclusions

- Majority of the firms in the selected KIBS sub-sectors represent routine services on a local/national level – nevertheless, a bulk of these located in the capital city region and large city regions, and some of the most innovative firms located in smaller cities/rural areas
- International-level services/knowledge reach SMEs only through support and development organisations?
 - Other possible knowledge sources: large customers and partners in the same value chain, company/corporation head-quarters, business/other acquaintances (Kautonen et. al., 2004), c.f. SMEs' knowledge web (Bryson & Daniels, 2007)



Conclusions

- International level services/knowledge available in all kinds of regions
- In capital city region, KIBS with market-driven business logic compared to other regions where some tendency to rely on and co-operate with the (semi-) public business and innovation development and support organizations (to a great extent public-driven logic)
- Notably management consultancies as channels of international expertise, whereas majority of advertising services seem routinized and local in their activities

Warm thanks for your attention!

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