EXPERTISE, PROXIMITY AND KIBS–CLIENT RELATIONSHIPS

Expertise, Proximity and KIBS–Client Relationships
- Theoretical Considerations based on Empirical Observations on Service Interactions in Knowledge-Intensive Industries in Helsinki, Finland

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The long-distance accessibility of KIBS has become an important question concerning both the business competitiveness of less-favoured regions and the internationalization of KIBS firms. We approach this question by analysing the meaning and role of geographical and organized proximity in KIBS–client relationships on the basis of our study carried out in Helsinki Region in Finland. We suggest that the relational weight of these dimensions of proximity varies according to the parties’ strategic interest in each service relationship, but most problematic they can get in customized services, where the imbalance of mutual strategic interest between the producer and its client is the most probable.

1 An earlier version of this paper was presented in the RSA conference on Regional Growth Agendas in May 2005. We appreciate the comments from the participants of the conference.

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INTRODUCTION

In regional studies and some other related disciplines, an advent of theories and approaches on what is broadly conceived as the ‘knowledge economy’ has led to a more fine-tuned study of the concept of ‘proximity’. For some time, the role of tacit knowledge was seen to witness a predominant role of geographical agglomerations as sites for knowledge creation and exchange in inter-organizational interactions due to a possibility for continuous face-to-face contacts. Theoretical discussion was almost blurred by this one-sided view although, as known, the present-day global economy is characterized not only by transactions enabled by telecommunications technologies, but also by an increased mobility of professionals both as short-term business visits to remote clients and long-term secondments of experts to new business locations, for example, thus witnessing a transfer of tacit knowledge over long distances. On the other hand, the much praised geographical proximity does not automatically transform into innovation-related cooperation between neighbouring firms (see e.g. Bathelt et al., 2004; Kautonen, 1996). In fact, other dimensions of proximity, such as institutional or cognitive, may play a crucial role instead.

Research on knowledge-intensive business services (KIBS; see e.g. Wood, 2002; Miles et al., 1995) has, on the other hand, focused on themes approaching the concept of proximity in stressing these firms’ close, context-specific relationships with their clients. Some scholars have even studied explicitly the role of permanent geographical proximity for the production and consumption of these services (O’Farrell et al., 1996; Wood, 2001; Keeble and Nachum, 2001; Grabher, 2003). As in innovation-related discussion, the strong presumption of the need for continuous co-location at least during service production in KIBS-client relationships has started to crumble due to the new possibilities offered by communication technologies. However, although there are various means to overcome geographical distance, temporary face-to-face contacts included, long-distance service relationships remain relatively marginal (see e.g. Wood, 1998; O’Farrel et al., 1996), and the production, along with the consumption, of knowledge-intensive business services keep concentrating to major city-regions near corporate headquarters and

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4 This paper is an outcome of the research project “Regionalization and Internationalization of Innovation Services” funded by the Finnish Ministry of Trade and Industry under the ProACT Research Programme and the National Technology Agency Tekes. The empirical data originates from another project titled “Knowledge-Intensive Business Services in Helsinki Region – A Pilot Study”, funded by Culminatum Ltd/Helsinki Region Centre of Expertise Programme, 2004. The latter project was coordinated by Jari Kuusisto (SC-Research), to whom we wish to express our gratitude for the cooperation during the research project.
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public administration. This leaves the supply of KIBS in regions termed less favoured with less variety and specification, which is why also Wood (2003, 12) highlights the state of peripheral regions from a business competitiveness point of view with the possibility of spreading access to KIBS more widely (i.e. outside the core regions) as one of important research questions yet to be studied. The question of long-distance accessibility is central also from a KIBS-producer point of view at least in small markets where the growth potential depends heavily on possibilities of interregional and international trade.

Since the reasons for the prevailing local nature of KIBS consumption seem to stem from something more complicated than pure practical barriers for long-distance service production (see above), investigating the meaning and role of geographical proximity in relation to the more relational dimensions of proximity, such as cognitive, social cultural or organizational proximity in KIBS–client relationships, might shed some light on the discussion. To simplify the task, we apply Torre and Rallet’s (2005) recent systemization of multidimensional proximity under the two following key concepts: geographical proximity and organized proximity. The latter captures most of the relational dimensions of proximity and, as such, offers a pragmatic starting-point to create an analytical overview of the meaning and role of proximity in otherwise so multifaceted KIBS-client relationships.

Empirically, the paper draws from a recent study carried out in Helsinki Region, which is the dominant centre of production and consumption of knowledge-intensive business services in Finland (see Kautonen, Hyypiä et Kuusisto, 2005). The study was conducted particularly among the clients of the KIBS firms to find out the gaps between their needs and the local KIBS supply. These clients consist of firms in the regional key areas of expertise which are part of the National Centre of Expertise Programme. Among the 33 client firms interviewed, industries and technologies represented are Adaptive materials and micro-systems; Logistics; Gene technology and molecular biology; Medical and welfare technologies; Digital media and content production; and Digital learning services. In addition, nine producers of KIBS were interviewed to chart the relationships from both client and producer viewpoints.

DIMENSIONS OF PROXIMITY

Due to the special characteristics of knowledge creation and innovation processes, proximity can get different meanings in different conditions and phases of these processes, particularly when they are considered interactive by nature. In innovation-related research, several forms and types of proximity have been defined as essential for
knowledge to flow from one actor to another: (cf. Boschma, 2005; Kautonen et al., 2000; Bramanti et Ratti, 1997; Lundvall, 1995):

- **Geographical proximity** implies measurable physical distance between actors in an innovation process. Some problems caused by geographical distance in innovation-process-related interaction can be overcome with logistics and knowledge transfer infrastructure even though these solutions may be time-consuming and create cost-related complications.

- **Industrial or economic proximity** points out the complementary or similar traits of production between actors in an innovation process. A good example of this kind of proximity is the set of complementary phases of production that a paper mill has with a printing plant or an architect’s office with a construction firm.

- **Organizational proximity** indicates the level of integration in the relations, both vertical and horizontal, between the actors in an innovation process. As such organizational proximity may affect the collective problem-solving ability of the actors in an innovation process and high integrity of relations may detract the troubles caused by physical distance.

- **Temporal proximity** means the simultaneity of different forms of action and cooperation. As a result of knowledge accumulation, innovation network members in different stages of development may interpret the same data in different ways.

- **Cultural proximity** relates to the shared ideas and beliefs between actors with the same profession, branch of industry or native language. Cultural proximity is a very multifaceted but significant concept: in innovation-related interaction, the actors’ ability to send, receive and understand codes and meanings in a common way is directly proportional to their success in their joint actions.

- **Cognitive proximity**, or cognitive distance as Nooteboom (2003) describes it, captures the tension between actors with different knowledge bases, languages and ways of thinking. This concept is by definition clearly overlapping with the concept of cultural proximity; yet cognitive proximity can exist without cultural proximity and vice versa. Cultural proximity is more about similarity in the actors’ way of acting, whereas cognitive proximity emphasizes their common way of thinking. The tension in cognitive distance is created by the relative number of similar and dissimilar elements in different actors’ knowledge bases: knowledge bases have to be similar enough for the actors to be able to communicate but simultaneously differences are needed for a new kind of synthesis and innovations to emerge (Nooteboom, 2003).

- **Social proximity** refers to the embeddedness of social relations between actors. Embedded relations consist of mutual trust, kinship, commitment and common experience that eliminate pure opportunistic
behaviour, facilitate free flow of knowledge and, in the long run, enable effective interactive learning.

- **Institutional proximity** is associated with the institutional framework that guides and controls the behaviour of organizational and individual actors. Shared formal (laws, rules) and informal (cf. cultural norms and habits) institutions set the rules of the game and that way provide stable and predictable conditions for interactive learning.

In innovation networks and innovation-related interaction, different forms of proximity are emphasized in different situations. Yet, at the same time, these forms are interrelated so that one slightly inadequate or totally lacking form of proximity may be strengthened or replaced by other forms of proximity. Simultaneously, only one form of proximity is seldom enough for knowledge creation and innovations to emerge: geographically proximate actors may cognitively be too distant to cooperate. In conclusion, it may be noted that whatever the form, proximity to some extent always has positive influence on the progress of innovation process; too much proximity can also suffocate the innovativeness that derives from free flow of knowledge and the very differences between actors (see e.g. Boschma, 2005; Torre et Rallet, 2005).

The multiplicity of dimensions has made proximity a useful tool to analyse innovation processes: it can be applied both on the individual and organizational levels and the possibility to stress the concept of proximity in alternative ways has led to a rich choice of approaches in analysing even innovation systems (e.g. clusters, technological systems and national and regional innovation systems) (Kautonen et Tiainen, 2000). On the other hand, the various interrelated and partly overlapping meanings have also shed some ambiguity on the concept, which makes it difficult to grasp the essential in different situations and contexts. From this point of view, Torre and Rallet (2005) make an important effort by systematizing the many forms of proximity under two key concepts: geographical and organized proximity.

**The comprehensive concept of organized proximity**

In their recent article titled « Proximity and Localization », Torre and Rallet (2005) both highlight the difference between localization and geographical proximity and criticize the overemphasis laid on co-localization in the research on proximity in inter-firm cooperation. They point out that co-localization alone is an insufficient basis for interactive learning, facilitate free flow of knowledge and, in the long run, enable effective interactive learning.

Although Boschma (2005), for example, has systematized the notion of proximity by identifying different forms for the micro and macro levels, even individuals act under the influence of macro-level settings like institutional rules and norms.
learning and communication, while organized proximity, consisting of
relational elements, is imperative for all kinds of cooperation. Unlike
often assumed, geographical agglomerations can exist without any
intrinsic direct relations and may well be based solely on pure logistic and
other infrastructure-related advantages offered by big city-regions and
urban economies of scale (on types of agglomeration, see Gordon et
McCann, 2000). On the other hand, in cooperative networks and trans-
national companies, for example, co-location can be replaced with more
temporary forms of geographical proximity, such as meetings, short visits
and, when needed, longer secondments. In other words, whereas
geographical proximity can facilitate interaction based on organized
proximity, organized proximity is the only way to make people interact
whatever their geographical distance. (Torre et Rallet, 2005.) In this
respect, the notion of organized proximity deserves a closer look.

According to Torre and Rallet (2005), the power of organized
proximity in promoting interaction can be explained with two rationales:
the logic of belonging and the logic of similarity. The logic of belonging
refers to all the (explicit or implicit, but internalized) rules and routines of
behaviour that facilitate cooperation between different actors. The logic
of similarity, then, implies a shared system of representations (common
cognitive maps, ways of interpretation and language) between cooperative
parties, which enhance the actors’ ability to communicate with and to
understand each other. As the dimensions of proximity in general, these
two logics are partly complementary and partly substitutable. They are
partly complementary since the shared system of beliefs or cognitive
maps eliminate the possible divergent interpretations of formal rules. On
the other hand, similar representations diminish the need for formal rules:
in a cooperative setting with weak formal ties and with no explicit rules,
the logic of belonging can be substituted with a strong feeling of
similarity, which can generate some implicit rules and thus sustain
cohesion (Torre et Rallet, 2005.) Hence, consisting of shared formal and
informal rules (logic of belonging), common beliefs, knowledge bases,
mutual trust and kinship (logic of similarity) and general integrity of
relations, organized proximity captures institutional, social, cultural,
cognitive and organizational dimensions of proximity under one
recapitulating concept. However, the question how geographical
proximity can be treated as a secondary dimension in innovation-related
cooperation remains yet to be explored.

Conditions for knowledge diffusion

The process of spatial concentration is, according to Torre and Rallet
(2005), often falsely explained by the direct externalities of geographical
proximity – that is, positive effects of co-locating with possible financial,
human or knowledge resources. Valovirta and Niinikoski (2005) have pursued this theorization by discussing knowledge spillover usually taken for granted among geographically proximate actors. Following Breschi and Lissoni (2001), they state that knowledge is usually communicated through economic mechanisms like the labour or technology market, communities and networks instead of pure knowledge spillover. That way knowledge transfer results also from financial externalities and is mostly adjusted and regulated by market mechanisms, social institutions and intentional knowledge management strategies. In innovation networks, there is rarely knowledge «hanging» in the air like the concept of knowledge spillover might make one to picture it. (Breschi et Lissoni, 2001.)

Similarly, tacit knowledge can be kept from others and, within innovation networks, transmitted even from a long distance. This can be explained by Breschi and Lissoni’s (2001) view on the essence of tacit knowledge: the tacit elements of knowledge originate from high level of specialization rather than from possible difficulties in articulating knowledge. The common codes and language of communication developed in a long-term relationship can be used to enclose the meaning of shared knowledge from outsiders (Breschi et Lissoni, 2001). Despite the fact that we do not agree with Breschi and Lissoni’s definition of tacit knowledge, which may well be impossible to articulate, their view is very pertinent when it comes to KIBS-client relationships; they vary between occasional short routine projects and long strategic partnerships, which is why the knowledge mediated is more often highly specialized than tacit by nature. In fact, this comes very close to what von Hippel (1994) describes as «sticky» knowledge or information, that is to say a kind of intermediate form of tacit and explicit knowledge.

«Sticky» information consists of knowledge that can be articulated and, that way, also formulated as explicit knowledge. However, the stickiness in information refers to the difficulties which the receiver of information will encounter in interpreting and understanding it if he or she does not have the same background information and the same knowledge base as the provider of that particular information (von Hippel, 1994). In other words, sticky knowledge is based on local and communal codes and cognitive maps rather than universal interpretations. In this respect, different cooperative networks and epistemic communities are essential since their internal communication is based on shared meanings and common language. In a way this sets the minimum for cognitive proximity between actors located, in a long-term perspective, at a far geographical distance from each other. In contrast, actors that are at least temporarily situated close to one another have the possibility to create some common understanding and shared codes for their future cooperation possibly sustained from further distance.
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The conditions for knowledge diffusion discussed above bring us back to Torre and Rallet (2005) and their concept of organized proximity. Consisting of relational elements emphasized also in this discussion, it seems to capture all such features of proximity that are the most relevant in knowledge diffusion and innovation-related cooperation. That seems to leave the role of geographical proximity in a secondary and supportive role in all inter-firm relations based on intensive knowledge-exchange, including essentially KIBS-client interfaces.

KIBS-CLIENT INTERFACES AMONG TOP KNOWLEDGE-INTENSIVE FIRMS IN HELSINKI REGION

In KIBS-related research it has been discovered that small and medium-sized firms are most likely to purchase their knowledge-intensive services from co-locating producers, whereas in large-scale companies the producers of knowledge-intensive services are usually chosen among the well-acknowledged top experts, whatever their geographical distance (Wood, 1998; O’Farrel et al., 1996). According to Wood (1998), this partly results from the fact that in small and medium-sized firms the familiarity with geographically distant KIBS producers is not adequate to create an alternative choice of experts in contrast with those geographically proximate KIBS firms that are recommended by partners, proven trustworthy in firms’ own experience or otherwise found reliable through personal relationships. Miles (2003), however, has noted that geographical distance is not the most central factor in choosing management consultancies. In the research on knowledge-intensive service activities (KISA), on the other hand, it has been found that in services that need to be tailored individually for each customer, the potential geographical distance does matter since the required close communication is known to cause expenses: in services that consist of highly specialized skills and knowledge they are of minor importance compared to the even higher expenses related to expensive human resources (Illeris, 19946, cited in Miles, 2003).

In our recent study on the use of knowledge-intensive business services among firms operating in the key areas of expertise of Helsinki Region, we found some parallel manifestations. Yet, in earlier research the fact that KIBS-client interfaces are by essence two-way relationships has been totally overlooked; it is not only the client but also the KIBS firm itself that has the power to decide which company to choose as its client. Drawing from interviews both in client and KIBS producer firms,

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our data gives a chance to investigate the meaning and role of proximity from both viewpoints instead of only one of them.

The KIBS agglomeration in Helsinki Region

Without going into a lengthy presentation of Helsinki Region, it is nevertheless worth outlining some main characteristics of it as a principal KIBS agglomeration in Finland employing 86,300 people in 2001 (Lith, 2003). As a capital city region, most of the major offices of the central government and corporate headquarters are located in Helsinki, thus making it a key location of clients for the KIBS sector.

Table 1 presents the shares of KIBS firms, personnel and turnover of the region of the national total, showing how heavily concentrated the sector is in Finland, as it tends to be also in many other European countries (Wood 2001). The region hosts also most of the business units of the large international business service giants that have been established in Finland. This considerable concentration of KIBS sector is reflected also on the use patterns of external expertise in client firms: although internationalized to a great extent, they tend to source most of their external service inputs from the region. Yet, some areas of expertise are for various reasons sourced from other regions and abroad. Some related findings from the interviews are studied next.

From empirical observations to some theoretical considerations on the meaning and role of proximity in KIBS-client interfaces

In our study on KIBS use in Helsinki Region we found that a significant determinant explaining the use of external expertise in general is firm size and, connected with this, a firm’s organizational structure:

<table>
<thead>
<tr>
<th>KIBS sub-sector</th>
<th>Share (%) of Helsinki Region of the national total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>by firms</td>
</tr>
<tr>
<td>Business consultancy and HR</td>
<td>56.0</td>
</tr>
<tr>
<td>Advertising and marketing</td>
<td>52.0</td>
</tr>
<tr>
<td>Computer services</td>
<td>50.6</td>
</tr>
<tr>
<td>Research and development</td>
<td>44.1</td>
</tr>
<tr>
<td>Legal and economic services</td>
<td>39.7</td>
</tr>
<tr>
<td>Technical services</td>
<td>39.3</td>
</tr>
<tr>
<td>Overall share of national total</td>
<td>45.6</td>
</tr>
</tbody>
</table>
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firms with multiple business units, often large by size with more than 250 employees, are important users of external knowledge-intensive business services, whereas single-plant firms, often small and at the beginning of their life cycle, are not intensive users, except of some services of rather routine characteristics (see Table 2 below). One key reason to this is, of course, their limited economic resources. Instead, in larger multi-plant firms, the use of external expertise is fairly diverse.

TABLE NO.2
Use and production of expert services in single and multi-plant firms, by client firms belonging to sectors of Helsinki Region Centre of Expertise Programme (N=31) Source: Kautonen et al. (2005)

<table>
<thead>
<tr>
<th>Service</th>
<th>Firm organization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single-plant</td>
</tr>
<tr>
<td>Accounting and bookkeeping</td>
<td>+++</td>
</tr>
<tr>
<td>Auditing</td>
<td>+++</td>
</tr>
<tr>
<td>Other economic services</td>
<td>-</td>
</tr>
<tr>
<td>Financial services</td>
<td>+/-</td>
</tr>
<tr>
<td>Advertising, marketing and marketing communications</td>
<td>-</td>
</tr>
<tr>
<td>Legal services</td>
<td>+++</td>
</tr>
<tr>
<td>Business and management consultancy</td>
<td>-</td>
</tr>
<tr>
<td>Knowledge management consultancy</td>
<td>-</td>
</tr>
<tr>
<td>Computer services</td>
<td>-</td>
</tr>
<tr>
<td>Personnel training</td>
<td>-</td>
</tr>
<tr>
<td>Recruitment and other HR services</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D services (including design, measurement and testing)</td>
<td>-</td>
</tr>
</tbody>
</table>

- = service not used or produced mostly internally
+/– = service both produced internally and purchased from external producers
+++ = service mostly purchased from external producers

Concerning external sourcing of expertise among the top expertise firms of the capital city-region, we concluded in our study (Kautonen et al., 2005) that a great majority of all KIBS are purchased from producers located in the same region where there is an ample supply of them, excluding some very specialized services infrequently demanded (see also Table 2 below). It was noticed also that:

– According to the clients, the location of a producer is not a principal criterion in sourcing.
– According to the producers, geographical proximity is of greater importance and it is believed that location has an impact on the client’s decision-making from whom to source a service.
– If a service is sourced from another region in Finland, there are basically two explanations for this: either 1) such a service in the capital city region is not available or 2) a client firm has relocated to the capital
city from another region in Finland but wants to maintain the KIBS relationship established in the original region.

− If a service is sourced from abroad, it is principally because either 1) an equivalent service is not supplied anywhere in Finland; 2) the service is perceived as of premium quality; 3) a foreign producer has much heavier references; 4) domestic supply is underdeveloped and there is not much competition between potential producers; or 5) a client firm aims at using that specific expertise in establishing a business in the country where a producer is located, thus being in need of knowledge related to those specific markets (institutions, regulation, contacts, etc.).

There were many indications in the interviews that a propensity to source foreign expertise increases, the more strategically important it is or if it is closely related to major innovation projects. This was found irrespectively of the size of the client firm interviewed. In fact, it had more to do with the clients own knowledge intensiveness and level of specialization; the more specialized the need of a client, the more liable the necessity to purchase the expertise abroad. In large companies there are, however, more possibilities to choose whether to purchase the expertise from abroad from a KIBS producer with the most eloquent references or to settle with some local expert who appears to be convincing enough to meet the client’s particular needs. Small firms, on the other hand, are most likely to purchase from the most proximate producer possible, supposing there is enough supply to meet the general quality standards in respect of the strategic meaning of the expertise in question. Table 3 sums up the patterns and profiles of purchasing external expertise in different client industries included in the study.
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### TABLE N° 3

<table>
<thead>
<tr>
<th>Sector</th>
<th>Focal ‘volume’ services</th>
<th>Services critical for innovation and competitiveness</th>
<th>Location of service producers</th>
<th>Problems with supply or use</th>
<th>Common for a user sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics</td>
<td>IT, A&amp;M*</td>
<td>IT, A&amp;M</td>
<td>Helsinki Region, IT Europe</td>
<td>Price</td>
<td>Volume user; information systems, brand and communication; some users favour producers in close geographical proximity</td>
</tr>
<tr>
<td>Gene technology and molecular biology</td>
<td>R&amp;D, A&amp;M</td>
<td>R&amp;D, legal consultancy and IPR, consulting in international affairs</td>
<td>Helsinki Region, OECD countries, R&amp;D also other Finnish cities with universities</td>
<td>Various; few specialized producers</td>
<td>R&amp;D intensive; small growing firms beginning to internationalize; rather limited resources to use services, but high capability to acquire internationally</td>
</tr>
<tr>
<td>Medicine and healthcare technology</td>
<td>HR services and personnel training</td>
<td>Personnel training, R&amp;D, A&amp;M, consulting in international affairs</td>
<td>Helsinki Region</td>
<td>Price</td>
<td>R&amp;D-intensive; selective use of services</td>
</tr>
<tr>
<td>Active materials and microsystems</td>
<td>R&amp;D, A&amp;M</td>
<td>R&amp;D, system suppliers, A&amp;M, consulting in international affairs</td>
<td>Helsinki Region, R&amp;D also other Finnish cities with universities</td>
<td>Producers’ competences and international experience (R&amp;D, technical services)</td>
<td>R&amp;D-intensive with international markets, technology-oriented user</td>
</tr>
<tr>
<td>Digital learning</td>
<td>A&amp;M, consulting in international affairs</td>
<td>IT, consulting in international affairs</td>
<td>Helsinki Region, a lot from other Finnish cities</td>
<td>Price, project management</td>
<td>Small growing firms; rather limited resources to use services; development of software and digital contents &amp; marketing and business models</td>
</tr>
<tr>
<td>Digital content production</td>
<td>A&amp;M</td>
<td>A&amp;M</td>
<td>Helsinki Region, also from other Finnish cities</td>
<td>Few service producers</td>
<td>Small growing firms beginning to internationalize; rather limited resources to use services; limited use</td>
</tr>
</tbody>
</table>

*Advertising, marketing and marketing communications
Among the KIBS producers interviewed in Helsinki Region the most valued customers are large internationalizing firms or small and medium-sized firms with bright prospects and clear potential to attain success; in other words, firms most expected to form a long-term, and from the producer’s point of view profitable, customership. Immaterial, intangible and often problem-based knowledge-intensive services are laborious to market, whereas their production requires a certain understanding of the customer’s business no matter how high the level of expertise in the KIBS firm itself. Due to these customer-related sunk costs, profitability is to be gained only in long-term relationships. And due to the toilsomeness of marketing, customers that can be used as reference to attract even more clients are most highly appreciated. This is why the competition for clients can be fierce enough for KIBS firms to make concessions even at the expense of their own short-term profitability to get their most wanted client. This is also why most KIBS firms in quest of extension for their business want to relocate themselves within easy access for potential clients assumed to bring some long-term profitability.

This is mostly true in knowledge-intensive services that need customization but have a relatively ample supply of them (especially e.g. in the fields of marketing services and management consultancy). Instead, routine services (especially e.g. in the fields of bookkeeping and accounting) are most likely to be both purchased and produced locally, with price and location as the most effective means for competitiveness, whereas highly specialized services (especially e.g. in the fields of R&D and related services) with both restricted supply and demand are internationally networked communities consisting more of partnerships than pure market-based producer-client relationships. In these specialized communities, the level of knowledge is more esteemed than mere firm size as a central quality to describe partners. The functioning of these communities are based on organized proximity due to a strong sense of logic of similarity (and/or to logic of belonging) and almost no emphasis is laid on geographical proximity (or only temporarily so). This is quite the opposite of routine services where the need for (even permanent) geographical proximity seems to be relatively significant compared to the rather minimalist need for organized proximity. The difference in the meaning of geographical proximity between these service types is in part directly proportional to their differences in supply – routine services are most likely to be found near – yet partly in association with the expenses related to geographical distance; client firms are not willing to waste resources on routine services which from the administrative point of view are necessary, but from the strategic point of view quite secondary.

In customized knowledge-intensive services, however, both dimensions of proximity matter: Customization requires organized proximity for the producer of the service to be able to understand the
client firm’s particular needs and for the customer to be able to absorb the new knowledge offered by the producer or created together in service interactions. Still, in market-based KIBS–client relationships, the level of organized proximity is seldom so high that the customization of the service could be effectuated with no face-to-face contacts, so to say, at least temporary geographical proximity. The problem is that in quest of top experts or most valuable clients the suitable party in business may well be found only at a long distance especially for firms (KIBS or client) locating in relatively small markets like Helsinki Region. In this kind of situation the question is which party is to bear the expenses caused by geographical distance? Our answer is: the one that has more strategic interest to cooperate with the other.

This brings forth yet another dimension of proximity (in addition to geographical and organized proximity, defined by Torre et Rallet, 2005) useful in analysing KIBS–client relationships, that is, proximity of strategic interests. Although Torre and Rallet’s organized proximity has an active form, as opposed to the earlier described organizational proximity thus describing the role of actors in creating mutual sense of belonging and/or similarity within an organization, an inter-organizational setting like the KIBS–client interface requires yet another form of proximity to imply the willingness of the actors in different organizations to create any organized proximity between them. Hence, proximity of strategic interests can be used to describe the levels of mutual interest between KIBS and its potential client (see Figure 1).

The level of strategic interest of each firm towards the other can alter from low to high, but it is the balance between these firm-specific interests that counts as a prerequisite for long-term cooperation. Both firms having high strategic interest towards one another enhances their mutual chance to, or development towards, organized proximity as well as the willingness to overcome the obstacles possibly resulting from geographical distance. On the other hand, organized proximity is also apt to reduce the expenses that geographical distance would otherwise produce. High and balanced strategic interests are most likely to appear between users and producers of specialized expertise due to scarce alternatives in choice of partners. In routine services the level of strategic interest between the KIBS firm and its client is often balanced, but low. However, in routine services, the main criteria to choose from a rich variety of alternative, co-locating producers and clients are price or solvency respectively and the conditions for organized proximity remain less pronounced.
Imbalanced situations regarding the levels of strategic interests in KIBS–client interfaces are in fact most expected in the field of customized services where, as mentioned before, the competition is almost fierce, yet the means to gain competitiveness are rather vague and based on intangible and relational features like reputation, credibility and personal relations. According to our interviews in Helsinki Region, this is why small and medium-sized client firms may find it hard to find services properly customized to their specific needs and why Finnish KIBS firms may have difficulties in creating clientele abroad: whatever the solvency of the client or pricing of services, without advantages based on image and general impression of success, they probably are not interesting enough for the respective party. Harshly put, charged with positive associations, a large firm size along with international connections is an easy way to get potential partners interested. The level of strategic interest is nevertheless disposed to change: a well-balanced customership can develop onto a higher level or deteriorate onto a lower level; lost interest
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can bring it to its end. Balance of levels of strategic interests can also turn into an imbalance, and vice versa. The less interesting but more interested party (the party with higher strategic interest) can always try to balance the situation by, for example, bearing the expenses of geographical distance. Yet without any concrete obstacles involved, the lack of interest can be impossible to beat.

ASSESSING AND RECONSIDERING DIMENSIONS OF PROXIMITY

We have here outlined some points of concern in terms of proximity, mostly reflecting our understanding gained from the original direct findings of the empirical study on KIBS–client relationships in Helsinki Region. However, in doing this, we have aimed at a dense and abstracted elaboration of a reality which inevitable leads to simplifying many features of the manifold reality. Therefore, some limitations and reservations are worth discussing in the following.

First, the presented outlines originate from a study concentrating on one region only and might be as such too context-specific to be generalized. Helsinki is the first city-region and the only true KIBS agglomeration in Finland, yet far from world cities and European KIBS agglomerations such as London, Frankfurt and Paris where the knowledge-intensive service supply is, together with demand, far more extensive with a rich variety of different specialized services and branches of expertise. Bearing this in mind, the question of geographical distance is hardly an issue everywhere. On the other hand, studying some less-favoured region with even less-developed KIBS supply might even give new perspectives to the discussion. However, the generalized meaning of organized proximity in KIBS–client relationships could be quite similar to that associated with Helsinki Region.

This brings us to the second point to be made: the emergence of KIBS–client interfaces is often based on personal experiences and relationships. Intangible and mostly customized services are toilsome to market but also difficult to buy: the quality and level of knowledge and competences of a service firm are hard to evaluate, which is why most firms (or individuals in charge) are almost bound to rely on something familiar and well-known in choosing their service producers. This is very understandable, but if the services are purchased from «someone you know», it can confuse the discussion on the roles and relations of proximity. However, there is no proof that the need for strategic interest could be bypassed and organized proximity created on the basis of a personal relationship and without organizational involvement during the whole service process. In addition to this, it has to be kept in mind that organized proximity was defined, conforming to Torre et Rallet (2005), as a synthesizing concept consisting of a wide set of more sophisticated
dimensions of proximity, which could give many valuable and more precise viewpoints to the description of KIBS–client relationships, when handled separately.

Third, in KIBS–client relationships there are very often third parties involved: for internationalizing client firms it can be the target market that they need to conquer or foreign authorities to deal with; for clients operating in their home market it is possible to use the service producer as a subcontractor in relations with their own client base and, for KIBS firms, it is quite usual to put their own networks of cooperation to work in carrying out some multi-dimensional or otherwise demanding service processes. For example, in this kind of situations as well, the discussion on the dimensions of proximity is more complicated especially in relation to the role of organized proximity: which firm is it most useful to form with and to what extent is it even necessary, if the real target of the service is someone or something different from its purchaser?

CONCLUSIVE REMARKS

As discussed here, geographical proximity alone does not guarantee a smooth transfer and joint building of competences needed by a client, but a certain level of organized proximity is a necessary precondition in this sense. We propose that organized proximity is imperative to geographical proximity in successful knowledge-intensive service delivery even in routine services in which the need for it is at its minimum. On the other hand, we also propose that some amount of geographical proximity at least in the form of temporary meetings is needed in all knowledge-intensive service processes and this is why geographical distance causes expenses.

Due to the lowest level of customization, one would suppose that it is the routine services that are the easiest to be sourced from afar. Yet, based on our findings in Helsinki Region, it is usually in the field of the most specialized expertise that long-distance service relationships are formed. This is of course partly related to the differences in the levels of supply between these fields of service, but the main determinant, however, seems, however, to be the strategic importance laid on each service relationship from both client and KIBS firms’ point of view: it is the level of strategic interest, which decides whether it is the quality of a service or expenses that count. Even off-shoring of routine services is an example of this; if only there is a chance for cost-cutting, strategically secondary service is worth relocating. In highly specialized areas of expertise, instead, the level of knowledge of respective parties is usually much more important than the expenses caused by it.

The dimension of proximity that we have preferred to call proximity of strategic interests is, however, most crucial in the area of customized
services where there is rich choice of both producers and client firms and competition of the best partners in cooperation is based mostly on intangible, relational and image-bound qualities with firm size and future perspectives. At the same time, due to the need for customization and context-specific problem-solving, a mutual strategic interest between the KIBS firm and its client is vital for organized proximity to emerge. This altogether makes this area of services most problematic concerning internationalization and the state of less-favoured regions: regions with both limited KIBS supply and demand have to, at least when compared to important KIBS agglomerations, deal with a vicious circle of small markets consisting of less possibility for local specification and development and thus more challenge in creating interregional, not to mention, international relationships.
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