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Transfer of managerial knowledge by business related services

Summary

The first part of the paper is a literature survey on learning in firms and organisations mainly through transnational transfer of knowledge. The discussion moves beyond "conventional economics" and puts the issue in a broader socio-cultural-geographic perspective. Various ways of organising transfer of knowledge are discussed: through formal and informal networks, from suppliers and customers and market oriented consultants. Different qualities or properties of knowledge will affect methods of consultancy practice. Standardised, programmed learning systems are readily handled by new information and communication technology (NICT), whereas specific management issues depend more on personal interaction. Geographically, the process profits from agglomeration economies, but is also influenced by decentralising forces. The theoretical part of the study concludes with a critical appraisal of strengths and weaknesses in the current practices of modern consultancy. It is followed by an empirical study of preconditions and bottlenecks in learning processes in transnational consultancy firms in business related services, based on in depth interviews with provider and client firms located in Norway. One assumption is that successful learning is a function of already accumulated client knowledge and of the ability of the client in formulating problems in the learning process. Another assumption is that mutual feedback between the parties in the process is important. Finally, the investigation reveals differences in methods for transferring knowledge.

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1 Theoretical overview

1.1. The problem

The concept of knowledge and learning have attracted increased attention in the business world, particularly during the last two decades. To possess knowledge has become almost synonymous with the development of the ability of decision making as a prerequisite for action. Rather than being considered as an abstract collection of general information knowledge can be understood as competent goal-oriented capabilities. Acquisition, absorption and integration of knowledge in industrial organisations and processes become vital strategic variables and part and parcel of innovation processes in industry. Knowledge plays an important part in the industrial process because it provides overall guidance and steering as well as day to day routines. It also helps the firm to establish relations with other firms or institutions. Finally, knowledge is important in organisational processes of change and in the production process, characterised by a persistent need for restructuring.

Given the importance of learning processes related to knowledge, one would expect them to be extensively treated in the economic and managerial literature. But one finds that it has often been neglected as a production factor or treated as an exogenous variable or a residual factor in analyses of production functions and production growth. One reason for this neglect is the intangible character of most forms of knowledge. Accordingly, knowledge as an asset has not been given the same weight as labour and capital. One reason is that it is difficult to quantify its contribution as an economic variable in the production process. Some researchers (Sveiby 1987, 1997) and Stewart (1997) have pointed to the importance of knowledge as an intangible asset of the firm. Before the recent IT recession this asset was clearly visible on the stock market, where values of IT companies were estimated from their pools of knowledge rather than from more tangible assets. Sveiby, as a consequence, even proposes to develop a special accountancy system of intangible resources, materialised in balance sheets.

There is, not surprisingly, little response from mainstream economics to this and similar propositions, since it is so difficult to analyse the importance of knowledge as an asset and production factor. Among these difficulties are the specific qualities in appreciation and depreciation; knowledge in contrast to more tangible factors is not depreciated in value by use and tends to grow by sharing (Sveiby 1997).

Despite different notions about knowledge as a phenomenon it is possible to define some common characteristics. First, we should distinguish between knowing *what* and knowing *how* (James 1950). The answer to *what* is mainly descriptive, the answer *how* implies a deeper understanding of how knowledge can be applied in a useful way. Second, knowledge may be tacit, explicit or formalised, with a continuous interaction between the two forms (Polanyi 1962, 1967). Grant and Baden-Fuller (1995) consider the capacity of a firm to integrate tacit knowledge as crucial in the knowledge building process. Third, in the process of creating and disseminating knowledge in firms and institutions both internal and external production of knowledge are becoming increasingly more common (Nelson & Winter 1982). Production of knowledge relies on a constant interaction between the firm's employees (its human capital), customers and suppliers. Fourth, knowledge is always embedded in culture. Culture makes up a background practice and, according to Spender (1996) it is not primarily a corporate asset but a qualitative aspect of activity systems. This heterogeneity of knowledge offers many strategic choices to managers. These may differ and yet give the same result (Dosi 1982, Spender 1996). Fifth, knowledge seems increasingly to become privatised. Samuelson (1955) and Arrow (1962) defined knowledge as a public good. This is true in the sense that it can be used by all without being consumed, and thus is easily shared. When it comes to *access* to knowledge, it is still being extensively publicly programmed, organised and produced, but the claim of public availability of knowledge is becoming less valid as it is increasingly privately developed, patented and monopolised, and becomes an important factor of competition in the industrial world, generating in Porter's words (1990) competitive advantage. The issue of knowledge transfer must be seen in the light of these changes. But first we have to look at general causes of the seemingly increasing demand explosion of knowledge.

1.2. Demand for knowledge. Old vintage on new bottles?

Stehr (1994) admits that knowledge always has existed in industrial processes and that its reproduction always has a cultural aspect, but still claims that knowledge is new in the sense that it is now penetrating all spheres of life. However, Arrighi (1994) argues that knowledge and its interpretation have always been important conditions for success. Already in the early capitalist period services (read organised knowledge) were indispensable as part of the production systems (Urry 1987). Much of the knowledge needed in production systems used to develop products and production processes in the early stages of industrialisation was to a large extent tacit, linked to particular persons. The knowledge was also more segmented. Before the emergence of large and formally organised corporations, knowledge, used in the organisation and steering of the enterprises, was also clearly restricted, often to specific persons, of whom the owners were the most prominent (Williams 1931). Knowledge accumulation and interpretation was generally small-scale compared to later development, but it would be wrong to argue, like Clark (1995), that the production systems relied on solid and long-lasting procedures and rules. Turbulence has always existed in capitalist production systems, and application of new knowledge to improve the system has been a constant although uneven requirement.

A second stage in the generation and application of knowledge was the introduction of scientific management (social engineering) of labour in the production process, associated with Taylorism, and the less known Bedoux system (Bryson 2000). Fordism as a system of production and socio-economic regulation owes much to these early generalisations of knowledge in the sphere of production.

At present more weight is put on organisational knowledge in the widest sense of the term, a fact which must be seen in the light of growing uncertainty and a concomitant quest for risk reduction. First, we are confronted with a general increase in complexity of industrial relations, driven by an increasing division of labour and integration of the production process. Second, more and more sophisticated products and services are developed through programmed innovation. Third, there is a need for nearly constant reorganisation of systems and activities. Fourth, new knowledge is needed when old rules are constantly broken by deregulation. Fifth, the need for

new knowledge arises as markets become more differentiated and globalisation becomes more and more widespread.

All these changing patterns of industrial organisation are clearly visible in every day life and will be pursued in this paper. The production and diffusion of management knowledge can be developed in two ways; within the organisation or through transfers from external sources. This paper will concentrate on external transfers of knowledge.

1.3. Creation, learning and expansion of knowledge.

In order to be put into use, knowledge must be adopted by individuals, groups or teams through a learning process. The insight gained from this process will have to be adopted and internalised by people working for the organisation. Much of this knowledge will be further developed in the knowledge pool existing in the minds of those working in the organisation. This human capital and the learning by doing on the job by the employees increases its human capital, an important source of reproduction, creation and expansion of knowledge. This acquisition will have to be converted into standardised tools and methods and given a codified status by the organisation. (Wei Choo 1998).

Boisot (1995) identifies three types of knowledge: personal, proprietary and commonsense as relevant for the accumulation of the knowledge pool of an organisation. This information and knowledge pool consists of tacit, explicit and cultural knowledge. Cultural knowledge is frequently overlooked, but is important because it constitutes a set of shared assumptions which serves as a filter which new knowledge must go through in order to be accepted or rejected (Schein 1991). One can find weak as well as strong cultures. In an integrated culture (Martin 1992), consensus is general, based on consistent assumptions .

Tacit and explicit knowledge in an organisation are complementary. Tacit knowledge is more widespread than we generally think. It is acquired partly as learning by doing, partly from tutors (Solow 1997). This form of knowledge is important in creative, innovative stages of development of production, representing the dynamics of the process to be further elaborated by the established organisation. Later it is

generally converted into formalised knowledge, which makes it more accessible to people outside the organisation.

Knowledge creation and expansion is part of the internal learning process of firms and organisations. This internal learning takes place through exchange of expertise between members of the organisation (Wei Choo op.cit.). This exchange process is important for the sharing of information, for the conversion of tacit knowledge and for moving knowledge between parts of the organisation. This type of knowledge building presupposes a clear understanding of core capabilities, which will allow members to experiment, and also a permeability which enables information to flow freely (Leonard-Barton 1990). Constraints in this process are shown by Szulanski (1996), who found that contrary to motivational factors personal factors like shortcoming of absorptive capacity and a negative personal chemistry are serious impediments to knowledge transfer within organisations.

Research and development has increasingly become an important competitive factor in industrial organisations. Control of R&D facilities motivates numerous mergers and takeovers, particularly in high tech and other science based enterprises. Closely linked to this method are foreign direct investments by multinationals which are frequently motivated by a skill learning component (Kacker 1985). Almeida (1996) found that transnational firms in the USA profited from local knowledge in an intensive learning milieu. This was a two-way process, where transnational firms also strengthened the local knowledge base.

Seen in a macro context, internal development and transfer make up the bulk of knowledge building. However, the development of external knowledge transfer has become more and more important. It takes many forms, most of them mean access to knowledge bases developed in local networks.

Inter-firm networks have become increasingly important in the knowledge building processes. Networks may be individual and informal, developed in meeting places between colleagues, both in the market place and in organisations. Knowledge diffused through these networks often takes the form of tacit knowledge and learning,

which at a later stage may be systematized and formalised. Knowledge networks are often extended by gatekeepers or brokers, who are linking otherwise unconnected actors to existing networks (Fernandez & Gould 1994). In this way new ties may be formed outside the close relations of actors. Granovetter makes a distinction between strong and weak ties (1973, 1985). Strong ties between close associates are supplemented by weak ties which give more distant actors access to information and expertise, from which they would otherwise have been excluded.

Formal networks, characteristic of industrial organisations, is a transaction type located between hierarchy and market, built on mutual trust. One important function is to act as knowledge links (Badaracco 1991), which may pave the way for the transfer of embedded knowledge between organisations. Such networks have been active in transfer and sharing of processual and organisational knowledge (Håkansson & Johansson (1987), summed up in Håkansson & Snehota (1995)). Through such networks passes exchange of capabilities between individual firms who otherwise are competitors (Kogut et al. 1993). Von Hippel (1988) found stable networks to be important in innovation processes, particularly relations developed between buyers and suppliers.

The growth of strategic alliances are closely related to the network structures and their role in transfer of knowledge. Alliances have a strong impact upon capabilities of decision making in internationalisation processes (Kogut & Koguhlata 1988). Mowery et al. (1996) pointed out that alliances are a central factor in acquisition of new capabilities through organisational learning, coming on top of existing competence within each firm. They found that alliances in the form of joint ventures were the most powerful in providing access to new knowledge.

Networks become a more and more important accepted transaction form between firms, but market oriented acquisition is still the most common form of external knowledge transfer. Private advisers, active in the knowledge transmission process, have mushroomed during the last 15 years. Many of them have become trans-or multinational, in particular in management and IT related consultancy. Driving forces behind this development and how they manifest themselves in a transfer of knowledge

between service providers and clients will be the main topic of the rest of the theoretical part of the paper.

1.4. The role of management consultancy in knowledge transfer. A structural view.

The role of market based solutions in knowledge transmission should be seen in the light of the environment where the process is taking place. The most salient changes in modern society are often a reflection of social constructions. More and more turbulent socio-economic relations and interactions have made new adjustments increasingly necessary, very often at many levels and in many relations simultaneously. There is an increasing distance between common sense knowledge and expert knowledge. This implies a learning society, characterized by dynamism in relations and practices as opposed to a performing society. This turbulence necessitates changes in performance. Obsolescent knowledge is more frequently replaced by new, more relevant knowledge. It is in this volatile environment the need for advice is increasing. Research results on learning processes need to be transmitted and contextually interpreted. Much of this process takes place within organisations, which are still the most important producers of knowledge. During the last twenty years, however, an increasing part of knowledge dissemination is organised by a growing number of management consultants.

More than four-fifths of those employed in management consultancy in Europe were in five dominant fields: 1) Strategy and Organisation, 2) IT, 3) Human Resources, 4) Financial and Administrative Systems and 5) Production Management. The two first mentioned fields are the most important (Engwall & Pahlberg 2001). The growth rate of consultancy firms has been uneven. To a large extent it follows business cycles, slowing down in recession periods and growing in more prosperous times, but there are examples of growth in demand also in slack periods where restructuring becomes necessary. At present, employment has, by and large, stopped growing, but there are variations between the *different fields* of management consultancy. These variations are more structurally conditioned than dependent on business cycles. The recovery after the early 1990s recession has strongly increased the demand for services related to the use of IT software. The expansion in human relations consultancy during the same period reflects a growing instability and mobility in the labour market,

especially among executives. Growth in the demand for financial consultancy is mainly due to a continued deregulation and globalisation. Growth in transfer of knowledge in the other traditional fields is more moderate, and there are signs of consolidation.

The shift in focus of acquiring knowledge, referred to above, underlines the importance of the particular need for learning in new and rapidly changing fields . Certainly, some organisations call in management consultants because they consider outsourcing as economically efficient, partly because they follow a strategy of concentrating on core activities. As far as management consultancy is concerned, pure substitution is a dubious road to follow, however. It is strategic considerations rather than transaction cost economies that lie behind the use of management consultants. This has been confirmed in a series of studies, thus Gallouj (1993), Tordoir (1990) and Beyers & Lindahl (1994). It was also the conclusion in a Danish investigation (Dam, Illeris & Jacobsen 1998). Consultants are also called in during peak periods. In-house employment can then be reduced. Consultants are also hired to make "objective" outside evaluation, important in cases of restructuring. Consultants bring new impulses and reduce the risk of "inbreeding." Outside consultants are also used to legitimate decisions made within an organisation. The use of external expertise may finally have a symbolic value. " We must be good since we bring in reputed managerial expertise."

Expertise within the client organisation is necessary in order to evaluate and implement outside recommendations. On the other hand, firms who rely exclusively on internal knowledge may suffer because important external impulses are not adopted. This is often the case in extreme self-reliant business cultures

The main goal of knowledge transfer is not to hire but to create competence. Management consulting should be a mutual learning process, solving problems between client and provider (de Bandt 1994, 1995). Interaction with demanding customers is one of the most important sources of new insight, also for consultants who can convert tacit knowledge of one client into explicit knowledge which would be useful for other clients.

Tordoir (1995) divides knowledge transmission into three broad categories; *sparring*, *jobbing* and *selling*. *Sparring* is a typical interactive process with guidance both by the consultant and the client. This is a genuine consultant-general manager interaction, mainly practised in long standing relations. *Jobbing* is typical in transfer of specialist knowledge, professional in nature. In those situations the client often is a professional himself. Generally, this is a less interactive process than sparring. *Selling* is when consultants design and direct solutions to problems, blueprints specified by the service provider. An example is Michael Porter's home video series for managers, ready made packages of knowledge systems to be applied on perceived problems.

Sparring and to some extent jobbing reflect a participatory knowledge transfer culture in contrast to a provider designed culture, based on mutual interaction, whereas selling is mainly a provider designed culture (Amdahl 1999). There are many transitional forms between specified and more general tasks, also reflected by the way of handling the process. Specific solutions are mainly developed by the consultants and are increasingly transferred by means of information and communication technology. General advice is usually given orally to clients. Expanding transnational firms give priority to global standardisation of the methodological toolkit of management consultancy which is often developed at international centres of higher education and learning belonging to the companies in question. Many methods have become more or less common property. One example is benchmarking, developed in the 1990s, where the client's current practice is compared to the best practice in the business world which the transnational consultant has access to through generalised data bases. This method is commonly used in crisis management and restructuring. Together with the practice of business process reengineering (Hammer 1990) benchmarking are examples of standardised problem solving used by consultants. Conversion of such general methods to the needs of one organisation is typical of the practice of sparring, where personal relationships between consultant and client are developed to secure the integration of global edge capacity and competence with local performance.

1.5. The geographical dimension

Geographers early became interested in the study of advanced producer services, partly as an extension of their preoccupation with services as the main element of central place systems. The spatial implications of advanced producer service growth have been summed up in Daniels (1985). Geographers have been mainly concerned with locational issues, but have in some cases also conducted interactive geographical analysis. Wood (1994) analyses the service provision process as an interaction involving both producers and clients simultaneously, presupposing an active awareness for the acquisition of knowledge among the latter. Geography matters for the location of management consultancy firms where knowledge transfer is linked to innovation. Both producers of knowledge and their clients will profit from a short geographical and cultural distance with possibilities of contact at short notice (Lundvall 1992). There is a need for face to face contact particularly when tacit knowledge is involved (Howells 2000) and innovative knowledge is needed, named "locational stickiness" by von Hippel (1988). In Denmark (Dam et al. 1998) found that both large and small consultancies profited from proximity to clients. On the other hand, large consultancies tended to locate in or near large cities where recruitment is more easy, which is important in an industry with high labour mobility. An effect of the spatial fragmentation of business organisations resulting from vertical disintegration in the post-modern economy is that information and knowledge rich cities are preferred as service spaces (Allen & Pryke 1994). Winners are providers and clients who are located in service spaces where they through interaction can profit from a series of knowledge transfer points. These locational advantages slightly correspond to Granovetter's weak ties mentioned above. Most of the participants in these knowledge transfer networks find that geographical concentration generates agglomeration economies. These benefits should not be overestimated, however. Clark (1993) reports that the issue of *location* of the consultant is among the least important motives cited by clients when choosing specific consultant firms. If this is true, it can be used as an argument for decentralisation of management consultants. Decentralisation might also be promoted by the fact that specific business environments, both on nation, region and place level, may prefer management consultants close to them rather than more universal, centrally located enterprises.. Transnationals who try to take advantage of European deregulation in services have

registered these regional preferences and have made for more decentralisation than expected (Evans 1993).

Conversely, global movements of consultants and consultant teams have increased in frequency, obfuscating location and transfer relations. The fact that multinational corporations in specialised knowledge transfer which have spread to more and more sites assisted by increasing amounts of codified knowledge, more sophisticated ICT technology and lowered telecom costs, seems to refute the claim that geography matters. This might be a superficial observation, though, reflecting only one side of the picture. Vigorous and central nodes will probably also in the future be important for transfer functions. Although transnational consultancies have established regional offices in most countries to take care of a more widespread demand, their main offices and the bulk of consultants and partners are located in core cities. Although there is still room for a differentiated location of transfer points, concentrations to world cities will continue to grow in magnitude, as has been evidenced in the recent past, particularly in the field of financial councillors.

1.6 Transfer of knowledge by management consultancies: A critical appraisal

Knowledge transfer from sources external to the user is an active process, where the knowledge undergoes changes as it is transmitted by the expert. The expert's work can be genuinely creative or a translation of general knowledge. There are many transitional forms. Knowledge transfer is often looked upon as a commodity. However, we should not push this metaphor too far. Selling knowledge is certainly the main goal of advanced producer services. Management consultants advertise their expertise to the outer world by creating a sustained need for it. In such a context knowledge reuse and even recycling is profitable for consultancies. The secret of good consultancy is to redefine a problem so that it matches a readily available solution (Bryson 2000). But knowledge cannot be sold just like any other commodity by dividing it into units. Efforts to quantify the value of knowledge has as a rule been futile. More relevant is an analysis of the real need for and quality of these types of

services, which by their very nature are intangible and whose content and relevance are not easily controlled by the client.

As to intangibility there may be differences in the various fields of advanced business related services. Technical consultancy and IT related services dealing directly with the production systems and their organisation are often quite tangible. More intangible is the production and dissemination of knowledge for improving industrial organisation, including mergers and acquisitions and restructuring, the very core of management consultancy. More or less "visible" knowledge transfer by providers and adoption by clients, exists also in these consultancy fields, often in the form of programmed systems, which may act as tools in easing transition to new organisation and new processes.

It is difficult to assess the quality of knowledge transfer. How can one evaluate quality prior to the knowledge transfer and how can one assess the value after the transfer has taken place (Clark 1995)? Many of the large, well established advisory corporations have tried to set up ethical codes. The Management Consultancies Association and the Institute of Management Consultants have made an effort, but have not succeeded in giving the management consultant professional protection, and no minimum qualification standard has been developed. Kipping and Armbrüster (1999) give credit to existing associations who support smaller consultants by giving them training and opportunities of exchange. By and large, firms generally fall back on their reputation among clients as the most common yardstick in quality evaluation. Judgment will, however, be subjective. Evaluation of consultants based on reputation may also be conservative because it will reproduce not only past solutions but also past assignments.

It is not easy to find one's way in the extensive literature on expert knowledge transfer and the role of its mediators. Critical views describe the role of modern consultancies as socially pathological phenomena. Stehr (1994), although he finds some positive sides of consultancy activity, thus interprets the mushrooming and commodification of expert knowledge as an expression of the debilitating effects of modern society, of its production of dependencies and alienation. Most of the

literature is preoccupied with the instrumental side of the activity. It often ignores preconditions for successful learning and constraints making for less favourable results. There are signs that a more fundamental assessment of knowledge transmission is beginning to materialise. Critical voices, generally belonging to social science, find a guru function in consultancy, often manipulative and aiming at convincing clients of the superiority of their messages far beyond any relevance for the clients. Some critics only see the negative components in provider-client relationships, viewing clients as powerless victims (Huczynski 1993, Thomas 1993). Others discuss the symbolic agenda of the consultancy process. The need of client managers for reassurance of and for keeping abreast of intellectual standards in management partly explains the growth of use of consultants in management functions (Jackall 1988). The consultant is the main provider of this information, but may also turn out to be a manipulator, "whores in pin-striped suits" to quote one of Jackall's metaphors. Clark and Salaman (1996) present an extreme view when they describe the consultant as a performer and compare the consultant-client relationship to a stage and an audience and the functions of the management consultant to those of an organisational witch-doctor.

A growing literature gives a more balanced view. The knowledge transfer process is described as relational and interdependent, certainly under heavy structural guidance, but with scope for considerable strategic action from both parties. Such action implies problem awareness and competence in problem definition also on the part of the client. Bryson (1997) reminds us of two kinds of interaction, one way transfer and two way transfer. Strong service compounds which include sophisticated clients are the most vigorous environments for creating and disseminating managerial knowledge. Fincham (1999) tries to reconcile a strategic and structural view of the consultancy activities:" There is thus no structural asymmetry or necessary zero-sum game implied in the consultant-client relationship. In the final analysis, the reputational and proprietary knowledge of the consultant *versus* the organizational and operational knowledge of managers defines the limits of the political process and contextualizes the level of dependency."

2. The empirical study

2. 1. The methodology

Knowledge transfer might be seen as examples of externalisation of activities (outsourcing), where the analysis leans on transaction cost economics. This methodology was found to be too restrictive. An alternative method is to move beyond traditional economics and view the process in the context of a set of conditions facilitating transfers and constraints preventing transfers. A study of how assignments are brought about, how interaction works and how dynamics operate both in consultancy firms and between the two main parties participating in the process could give insight into enabling processes. Examples of constraints are conflicts and informational strains, problems of putting human capital to use and excessive cost relations.

It is assumed that a successful learning process depends upon a proactive role by the client throughout the collaboration process and that clients and consultants are able to implement programs and projects. The forms of interactions will vary, depending upon the degree of standardisation of the knowledge transfer. Solving of specific management problems depends upon a close and intimate interaction, bordering on the sparring learning relations, discussed in section 1.4. In other cases, problems can be solved because the consultant can convert standardised programmed learning into specific client oriented solutions. On the other hand, the lack of clarifications and specifications of management will often lead to failure in the knowledge transfer process.

The survey presented in this section is a restricted in depth analysis and does not pretend to give a representative picture of the transfer of knowledge in Norway at the present time. The empirical material collected is based on interviews with nine consultant and seven client firms. They have been asked to give their views on which factors will contribute to a smooth knowledge transfer and which factors will prevent a good result. In order to simplify and make the analysis consistent the aim of the survey has been to uncover practice and performance of knowledge transfer between large transnational consultancy organisations and large client concerns who are either

part of larger global firms or proactive enterprises on the international scene in their own right.

The semi-structured in depth interviews were made with executives at higher level in the organisation, but in a couple of cases also with younger members of consultancy teams. Main impression of responses make up the knowledge content. The study is, on this background, explorative in character.

2.2. The growth of management consultancy in Norway

Firms lending advice on management to industry and public institutions have existed in Norway since the early Post World War II period. There are no statistical data on the magnitude of the activities but the information available is that management consultancies did not take off before the mid 1980s, in contrast to technical consultancy, which was firmly established, also as an export activity, by that date. The real expansion of management consultancy is mainly a phenomenon of the late 1990s.

This growth coincides with a period of deregulation, with a mounting privatisation and strong industrial restructuring, often linked to the important development of the petroleum economy. Substantial restructuring has taken place in public and semi-public enterprises and institutions, which became an expanding market for consultancies. The present service statistics of Norway based on the NACE nomenclature date back only to 1994, and the latest figures cover the situation only through 1998. In 1994 total employment in consultancy firms was 75 500; 15 per cent of these jobs were in management consultancy. The corresponding numbers for 1998 were 106 000 and 24%. This means that 46% of the growth was in management consultancy, which has thus increased faster in employment than the total advisory functions.

In addition to medium-sized and small national and regional firms, the large multinational management consultancies are all present in the country. Arthur Andersen was the pioneer, established 50 years ago and earlier using Norway as the base for its Scandinavian activities, to begin with mainly as accountants, later

particularly expanding in consulting. Mc Kinsey & Company followed, but on a smaller scale. Later all the main global and European consultancy corporations have established their activities in the country, the Boston Consulting Group as late as in 1995. This development has contributed to the strong concentration of this service industry both structurally and geographically. There have been a number of fusions and takeovers, often following the international restructuring of firms. Simultaneously the spatial distribution is one of concentration. The capital city region with 22% of the national population accounts for exactly half of the total employment, with a slight increase in the employment during the late 1990s. The three other largest city regions with 13% of the country's population answer for an additional fourth of the management consultancy employment, with a slight relative decrease over the same period.

2.3. Causes of knowledge transfer given by provider and client firms

2.3.1. Motivation

Reasons for contracting consultants range from pure conventional economic considerations to symbolic representations. Strikingly absent from answers obtained in our client interviews are examples of consultants being used for cost considerations, substituting the internal part of the organisation, a classical case of transaction cost economics. Economic issues are important, but then in more dynamic, innovative contexts, such as in restructuring processes. The need for sparring partners in the development of business strategies and for organisational improvements is also mentioned by a majority of the firms. Consultants are also engaged for quality assessments, particularly when new systems are designed and implemented. Clients expect objectivity of judgment and impartiality from their consultants, a reflection of the uncertainty surrounding decision making in many modern economic organisations. Consultants were also frequently asked to introduce new knowledge into the client organisation, performing the role of mediators between the academic world and the practitioners, a task which was underlined as an important function in chapter 1.4. Knowledge was required to fill in gaps in manager knowledge. IT knowledge is a good example. One of the largest client firms expressed the need for partnership between external and internal consultants in processes of updating edge competence in organisational development.

Large client organisations only to a small extent use consultants to legitimate particular management measures. Absent from this sample is also the symbolic value of cooperation with renowned consultancies. This may be a reflection of a high degree of sobriety among Norwegian business executives.

2.3.2. Background of assignments

The growth of consultancy activities in management advisory functions is the result of proactivity both on the supply and demand side. Some clients chose consultants recommended by people they know, privately, in formal networks or through weak ties. Consultants also actively search for clients. In the words of one of the respondents: "They do everything to remain visible". Most contracts between clients and consultants are relational, made through already established links in client-consultancy networks. Clients and consultants alike prefer this form of acquisition. Clients look for consultants who already are familiar with strengths, weaknesses and problems inherent in the client organisation. Clients also appreciated consultant firms' international experience and general base of competence. These preferences restrict the number of potential contract partners.

Clients also preferred consultancy firms with an ability of co-operation, a capability of communication and regard for the client culture and personal chemistry between partners in the co-operation. A shared cultural outlook, discussed in chapter 1.3., was emphasized by many clients as beneficial to the knowledge transfer process. In some cases it was conducive to choice of service provider. In this sample with large firms experienced in global relations this did not necessarily mean adaption to local culture. Generally, these firms seemed to prefer consultants with whom they are familiar. Nearly two thirds of the consultants' commissions were contracted with earlier business partners. Such more or less permanent links will reduce transaction costs and give continuity to the knowledge transmission process. There is, however, a risk that such partnerships may reproduce old procedures and the client may miss innovations strongly needed in the present turbulent business environment.

2.3.3. Conditions for interaction

The theoretical part of the paper called particular attention to the interactive nature of good consultancy practice. This interaction has often been neglected in geographical

service studies. This is unfortunate, because positive interaction is an important condition for successful knowledge diffusion. Interaction implies both the organising of the process, the methods applied by the consultants in transmitting knowledge, skill and competence and the readiness and capabilities of the clients in formulating problems and in absorbing and assimilating new knowledge. Interaction also includes active contribution of clients in the transfer process, to finding solutions and in implementing them.

Our respondents, both providers and clients, underline the importance of a pre-organising stage, where conditions of co-operation both in a contractual form and as a practical work programme will be specified as far as possible. The specification may take the form of a general agreement or a standard contract and is, according to the information given, legally binding. In most instances the client is more protected than the consultant. Both partners may terminate the agreement within a time limit, given that the reasons are duly stated.

How is then the transfer process organised? Partly, it depends on the nature of the problem to be solved. Standardised, well defined and easily programmed tasks of a combined technical and managerial nature are usually transferred in specified reports and less through dialogue interaction. Much of the work takes place through ICT links, telephone conferences, use of video and intranet. But it was found that direct association by visits to the premises of the client was more widespread than assumed.

The lack of dialogue, particularly in introductory stages of a process was also characteristic for human relations consultancy, especially in executive recruitment, where direct client intervention only takes place in the last stages of the search process and the final ranking of candidates.

Although typical consultant designed and driven knowledge transfer is frequently practised at a certain distance, the by far most important forms of knowledge transfer today take place through tight interaction, by consultants working in the client's organisation. This is particularly the case when consultants are involved in addressing new strategies, changes in organisation and restructuring of industrial activity. In

several of the interviewed firms mutual teams work together on assignments lasting not only for months but in some cases even years. In these teams the client is represented with personnel at high levels in the managerial organisation. The consultants participated with a mixture of senior and junior members. They justified the inclusion of junior members that they would learn by doing and would be given a quicker chance of promotion. The consultants admitted, however, that cost considerations play a role for the composition of the teams. Some of our client respondents also felt cheated as to the quality of the personnel provided by the consultancy firm.

Although tacit knowledge is often a basis of creative knowledge generation, extensive information systems, partly as conventional libraries localised in the consultant's office, partly electronically available through intra-internet or as on line data bases will be at the disposal both of the client and the consultant and make up important tools for both parties in the interactive process.

The rapid spread of ICT has changed working methods. One of the consultant interviewees observe that: "the portable PC is in the majority of cases preferable to a stationary one in the consultant's office, where fixed office places are becoming increasingly rare, if not outdated". Most of the consultancy firms interviewed had replaced their single or double offices by a "hotelling system", where consultants increasingly have to rely on mobile cellular phones and only occasionally order office space at their company's headquarters.

This flexible interaction pattern developing in the consultancy business may also explain scant importance given to location by both parties in the process. Most of the provider firms are big corporations and the bulk of the clients is large concerns with centrally located head offices, a pattern which has been reinforced during the recent past. It is therefore not surprising that some consultancies of late have even closed their regional offices. Both clients and consultants agree upon the important role of the client firm in defining the issues at stake and in the cultivation of the knowledge acquired. This reflects in other words a need for sufficient supportive capacity, so strongly underlined by Malecki (2000). In practice, this role is not always taken. The

leader of one of the industrial client corporations admitted that much of the preparation of the process, including problem formulation, was staged by the consultant. In those cases consultants frequently organise workshops to aid in formulating the objectives. On the other hand, client firms take action to assume control of the co-operation process in the later stages of the work. And when it comes to implementation, consultants and clients agree that this is the responsibility of the clients. This does not prevent consultants from playing a monitoring role also in this phase of the process, acting as "shadow managers", particularly in IT linked assignments.

2. 3. 4. The stock of knowledge as a prerequisite of knowledge transmission

The process of knowledge transfer never ends and the consultancy firms have an important role in keeping this process going. Both more informal and formalised learning are important in this context. Both providers and clients agreed that interaction with clients is necessary to keep the stock of knowledge of advisory firms updated. Information gained from clients may be generalised, interpreted and transferred by consultancy firms in new learning situations. This is the only effective way of transmitting the insight of consultant firms to other clients. Such strategies are not unproblematic and can lead to friction between the client and consultancy firms in the process. Tacit knowledge is one product of this learning process. This concept is hardly familiar to most of the partner firms, but it is nevertheless a source of important information to be systematised, formalised and integrated into the pool of knowledge and reused in future assignments.

The main source of updated knowledge to be transferred is found as human capital within the knowledge and client organisations. Therefore recruitment policy of staff is important. Most of the staff in the management consultancy organisations has traditionally been recruited from among graduates of business schools. This practice is changing as consultancy agencies realize that there is need for people with a broader outlook and practical training both from industry and public institutions. In one of the multinational consultancy corporations intake of business school graduates has been reduced from 90% to 60% over few years. On the other hand, age still matters . Very few beginners are employed after the age of 35.

The professional base of recruits has also become broader. In addition to attracting young people with an economic administrative and technological knowledge base, people with a background and training in social science generally, in the humanities and even in the medical profession have been recruited in recent years.

The acquisition of new knowledge and getting rid of old and obsolescent information is a continuous challenge both for the consultant and client leadership. Updating is therefore an imperative. When interviewing respondents, it struck me, however, that much of this upgrading was somewhat haphazard and fragmentary. Learning through practise in the client organisations and internal knowledge upgrading are more important than R&D and contact with universities. Coursework and frequent internal seminars are common to all the firms in the sample. A couple of the firms run their own overseas institutions of higher learning, concentrating upon the upgrading of senior executives. Exact figures of resources spent on upgrading of knowledge were not available and they differ between firms. A reasonable estimate is that at least 3% of the turnover was spent for upgrading. I was surprised that so few master and doctoral career paths were offered, even in these highly transnational organisations,

Two of the global consultancy corporations have built up a cognitive base primarily for newcomers informing them of the culture of the corporation, including common values and ethical codes. There are training centres and social gatherings. In addition, reward systems are generally practised. Although it would be misplaced to label most consultancies professional organisations in the traditional meaning of the term, an "esprit de corps" easily develops by such measures. The promotion of the enterprise culture may over time lead to traditional, even stereotypical solutions in the knowledge transfer process.

2.4. Constraints and bottlenecks in knowledge transfer

2.4.1. Conflicts

There are many good reasons to develop a community of interest in consultant-client relationships. For the client there is an urge to solve imminent problems.

Nevertheless, our data show conflict situations arise. When specifications of rights

and duties are not sufficiently clear, conflict situations emerge. There are examples of dismissal of consultant team members from active co-operation, and even break of contracts. Cases were also found of members of client teams who had to resign from active co-operation. Conflicts may also arise because clients try to make the consultant conform to a specific business policy. These conflicts may particularly occur with shift of leadership in the organisation. In work situations depending on personal relations, personal chemistry have caused conflicts, in extreme circumstances leading to severance of connections. In our sample we also find problems when deadlines are not met or when the product delivered does not honour the agreement. This has happened, though not frequently. In the majority of cases, however, amicable solutions are found.

2.4. 2. Strained informational relations

Strain in interaction may also arise from differences in the interpretation of mutual trust between the parties concerned. The client may be reluctant to reveal details of core competencies to outsiders in general and to the consultant in particular. Some of the clients interviewed feared that consultants would, contrary to the contract, unfairly pass knowledge on to competitors. By and large, consultants try to be careful in reproducing sensitive knowledge, making it part of their ethical codex, but it cannot be denied that important parts of their competence have been acquired during consultancy processes. What comes to their knowledge is not easy to control, since much of it is of the tacit type, gradually assimilated into explicit knowledge. It is also difficult to control access to the extensive databases being built up, particularly by the big actors in the business. Some of the client firms interviewed told that they had introduced clauses in their mutual agreements against knowledge leakage and there are examples in the empirical material of confidentiality within specific time limits on sensitive information.

2.4.3. Human capital problems

Considerable movement of personnel takes place between consultancy firms. New fields of knowledge production and interpretation give new opportunities, particularly for young people, as seen until quite recently in the ICT consultancies. which had to compete for qualified staff. Globalisation acts in a similar way in the growing

multinational part of the firms. A certain amount of turnover of manpower is both natural and desirable to prevent ageing problems. Variations in the market also make it necessary for firms both to lay off and to engage staff. High mobility of staff can become a problem for consultancies, however. It may represent an economic drain for employer firms, since the employees have gone through a learning process which by and large has meant a considerable investment burden. The leavers also take with them knowledge and competence, and this may affect competition negatively. Firms disagree on the turnover tolerance limit. Generally, 15 per cent per year is considered a maximum. Several of the companies interviewed have experienced a higher turnover and taken steps to reduce it. Exchange of personnel with high professional knowledge is not limited to consultant corporations only. Client firms may also lose valuable people, often to consultancies they know well through joint projects. In given conditions such personnel transfers may upset the balance in the knowledge transfer process, and it was serious enough to be mentioned by some of the respondents.

Consultant firms are generally considered expensive. The majority of the client firms, however, did not think that the cost kept them from hiring external expertise to build up a knowledge base. Cost was listed only as a minor factor in the selection of consultancies. Many clients tend to look at consultancy work as an investment in competence and capability rather than a running cost. However, price is important when clients have to choose between external or internal expertise in solving imminent organisational and managerial problems. After a long period of increase in the use of external consultants, several of the sample client firms have become more reluctant to outsource tasks to consultants, partly for economic reasons, because they also want to strengthen their internal competence. As an example, Norwegian Mail (Posten Norge) spent 650 mio. NOK in 1999 on consultancy fees but has now taken steps to reduce them by 50% .

3. Conclusions

The role of knowledge in industrial organisation and production is age old in origin. The differentiation into the various forms of providing it is, however, of more recent origin and is a reflection of the growing complexity of socio-economic structure and relations between actors in firms and institutions. Particularly important has been the

growth of *external* transfer both as informal and formal learning. The former type is characteristic of ties and informal networks, which have undoubtedly grown in importance. The latter is more typical of formalised networks and alliances, and particularly during the recent past of market oriented consultancy. The latter form of knowledge transfer has taken off particularly from the mid 1980s. Periods of ups and downs in employment of consultancy firms have alternated. At present, it seems that a polarisation is taking place in the supply, found among others by Kipping and Armbrüster (1999), but also verified in the interviews of the present investigation. The essence of the changes is a decline in the relative importance of medium-sized national firms, consolidation of the multinationals and increase in an undergrowth of smaller enterprises, offering their services to an ever wider specter of customers. The rather limited research having been done on this transfer disagrees slightly both as to the ways by which it is contracted and conducted and as to its relevance and quality and the results obtained. This different assessment of consultants as knowledge transfer agents is also confirmed in the present empirical investigation. It was found that one of the most common ways of interacting in knowledge transfer was by formation of team structures. The teams were, however, as also testified by Lea (1999), far from ideal in composition. The knowledge regimes organised were by and large professional, generalist in problem approach rather than dominated by more transdisciplinary approaches. The latter form of disseminating knowledge is, in the turbulent, less predictable reality of today becoming increasingly imperative in order to solve organisational and strategic improvement problems, which is the "raison d'être" of management consultancy. Current practice will therefore in some cases prevent an optimal dynamism in the process. Certainly, the need for a broad interdisciplinary approach differs. Some tasks can be satisfactorily solved by the general practitioner, others by the more one-sided professional adviser, whose design and methods of knowledge transfer border on the "selling approach" discussed in chapter 1.4. in the theoretical part of the paper.

A careful conclusion based on the empirical study would indicate that the results of the client-consultant relationships are rather ambiguous. Well defined and controllable tasks of a more systemic learning nature are generally positively evaluated, while the broader, more intangible strategic consultancy assignments, although deemed

necessary in many cases by client firms wanting to concentrate on core activities, are assessed as far more doubtful in giving value for money. Clients take self critique, though, for some of the less successful results, for not being enough focussed and for not utilising optimally the competence of the consultants. The blames uttered towards the advisers, which are more common, may explain some of the reluctance encountered, particularly in public institutions in Norway, to continue seeking consultancy aid on the scale which has been common in recent years.

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