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**THE DIFFERENCE THAT GEOGRAPHY MAKES
TO THE ACQUISITION OF SERVICE EXPERTISE:
SOME EVIDENCE FROM NORWAY**

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Abstract

This paper begins by identifying the logic driving the evolving geography of business service networks in Norway. The paper explores the ways in which Norwegian SMEs access external knowledge provided by management consultants. The existing literature on business services has been dominated by studies of large economies. Nevertheless, interesting differences can be identified in the relationship between providers and consumers of knowledge in small economies and especially a country like Norway which has a difficult topography, small and scattered population and an economy not dominated by a global city. The paper draws upon 3 case studies of client firms; two of these case studies are informed by interviews with both the client and the consultant. The paper highlights the importance of three kinds of client/consultant relationship – local knowledge; dislocated knowledge and clients that are insensitive to distance. The importance of local business culture as well as forms of patriotic purchasing behaviour are identified as playing an important role in the decision to employ or not employ consultants.

SME, Norway, production, consultants, closeness, distance

1. Introduction

The rise of the service or information economy and globalisation were two of the most important developments to occur during the 20th century. These two processes go hand-in-hand and are part of the same process; service activities and functions enable the process of globalisation. ‘Globalisation’ has, however, become a much-overused buzzword to describe and explain qualitative and quantitative alterations occur in the world economy. The overuse and even misuse of this term often obscures more than it is intended to reveal. Globalisation highlights the increasingly interconnected nature of economic activities, but hides diversity. This is an important point for the on-going debate into the new informational society. Castells and Aoyama (1994) draw attention to the cultural and institutional diversity of the informational society by identifying two different informational models: a ‘service economy model’ represented by the USA, UK and Canada and an ‘info-industrial model’ represented by Japan and Germany. The difference between these two models is founded on a real shift towards service employment in the former whilst the latter have developed informational economies that support and reinforce manufacturing activity. Different cultures, languages, social systems and geographies contribute to this diversity.

The developing global economic system is facilitated by developments in transportation and communication technologies. New technologies are not the sole drivers behind these transformations; the process of globalisation has been made possible by the evolution of multinational as well as national service providers that attempt to overcome some of the barriers produced by local differences. In this group are a variety of business support services that bridge the gap between local or national cultural constructions of the economic (Zhou, 2000). Producer services - those services that are sold primarily to businesses and government – are the most important actors in the development of international rather than national business practices. Producer services are a complex and evolving group of activities that

include financial, legal, management, personnel, public relations, advertising and marketing. These services have three important characteristics. First, they are some of the most rapidly growing sectors in developed market economies. This growth began in the late 1980s and continued through the various recessions and economic downturns of the 1990s. In some cases producer services are relatively recession proof as the expertise and knowledge they provide to clients may be equally as valuable during economic downturns as periods of boom.

Second, they have a distinctive geography –with heavily concentration in major cities and especially global cities (Sassen, 2001). The market for producer service expertise is expanding as more companies are either forced (by shareholders, competitors, public agencies, etc) or encouraged to seek external expertise. This is a complex issue and needs further research. Some client firms have distanced themselves from consultancy knowledge on the understanding that such knowledge has limited value, whilst other firms have been persuaded to employ consultants. As the geographical extent of the market expands to include companies not located in urban areas producer service firms are being established in rural areas to service local demand or to export their expertise to other regions and countries. Beyers and Lindahl (1996) note that producer services are growing rapidly in rural America and identify two types of exporting firm: ‘Lone Eagles’ (sole traders), or ‘High Fliers’ (firms with one or more employees). The geography of producer services is evolving as the expertise is embodied in people rather than in expensive equipment. Consultancy, for example, is a social relationship usually founded upon trust established via face-to-face interaction. Once trust has been established part of the exchange between the client and the consultant can be delivered remotely via phone, fax and e-mail as well as directly through visiting clients. This means that consultancy firms can be established in rural areas as long as the founders possess the business contacts and reputations required to obtain non-local clients. Clients, however, are unlikely to engage consultants without direct personal contact, and successful interaction only usually occurs when both parties are actively involved in the service relationship. The geography of producer services is evolving to reflect client demand at two levels: to satisfy local demand for general expertise and to provide specialist expertise that may be relatively dislocated geographically, but is still embedded in social networks driven by trust and forms of reputational capital.

Third, producer services increasingly undertake a co-ordinating, advisory and benchmarking role. Their position in the wider production system is becoming increasingly important as they are involved in the identification and creation of new ways to manage economic activities; in many instances they have played an important role in the transformation of firms – downsizing, merger, rationalisation; introducing new computer systems and e-commerce; spreading new product or process technologies and spreading ideas between companies and countries.

There is a substantial and developing literature on producer services. This literature explores the difference between manufacturing and producer service firms highlighting the role of embodied expertise, reputational capital, uneven geography and aspects of the client relationship. There are two problems with this literature. First, the producer services literature needs to be more aware of business cultures. The work of Peters (1997) highlights the importance of cultural diversity in the world of business whilst Zhou’s (2000) investigation into Chinese producer services demonstrates the role ethnicity plays in the client/producer service provider relationship. Castells and Aoyama’s (1994) work suggests that different national business cultures provide producer service knowledge in different ways whilst

Furnham and Gunther (1993) suggest that different corporate cultures exist within the same country.

Second, the producer service literature is dominated by studies of large transnational corporations, detailed analysis of producer service firms located in global cities (Sassen, 2001) and a concentration of research on suppliers and consumers of producer services located in the UK (Bryson et. al., 1993; Bryson, 1997; Bryson and Daniels, 1998, Wood, 2002) and USA (Beyers, 1992; Beyers and Lindahl, 1996; Zhou, 1996, 1998, 2000, Sassen, 2001). We argue that the relationship between producer service firms and clients may be different in other geographic settings dominated by other cultural and economic contingencies. It is thus timely to consider the supply and demand of producer service expertise in Norway, a small economy, which does not have a major global city and where there are businesses, that according to some economic geographers, cooperate and share knowledge in localised clusters (Maskell et al., 1997). The theoretical perspectives that dominate the producer service literature have been developed from studies of large economies. There is a danger in transferring these theoretical perspectives to smaller economies and to countries like Norway with different geographies (Selstad and Sjøholt, 2002). Norway has for instance a difficult physical geography that often makes travel time consuming and sometimes impossible. The number of business-related air journeys both between major metropolitan areas and smaller urban conurbations is quite high. The distance between cities and regional centres, however, dampens mobility between them and helps maintain local regional cultures. It is also worth noting that unlike many other countries Norway does not have large congested cities with infrastructural and transportation problems and Oslo, the capital, is one of the smallest European capital cities. Obviously, these factors influence the relationship between service suppliers and their clients.

In this paper we start identifying the logic driving the evolving geography of business service networks in Norway by exploring the relationship between firms' business strategies and the geographical and socio-economic setting. A key issue is the relationship between the location of clients and producer service suppliers; in other words in what ways, if any, does geography still matter in forming this relationship. Does it matter if clients and suppliers are located in the same community (area and local social system) or separated by space? Does geographical propinquity matter or does Norway's geography mean that clients located away from the main cities of Oslo and Bergen have to rely on the delivery of services via forms of remote presence mediated through ICT? Are firms finding alternatives to using consultants or service providers in acquiring the knowledge that they need?

The paper is divided into three parts. The first part provides an introduction to the structure of the management consultancy sector in Norway. This analysis is followed by the development of a theoretical framework that identifies and explores some dimensions of the relationships between geography and client consultant interaction in small economies. The third section explores the geographical relationships identified in part two through three case studies that examine some elements of the interactions between geography, client firms and consultants.

2. Management consultancy in Norway - a structural overview

Between 1994 and 2000 the number of business and management consultancy firms (NACE 74.123 and 74.14) operating in Norway increased by 398 per cent, from 764 in 1994 to 3805 in 2000. By 2000, this sector employed 8244 people. Most firms are small with only 8 per

cent with more than 49 employees (Statistics Norway 2002, unpublished data). Like the UK and USA, management consultancy is geographically concentrated in the main urban centres. Norway has six urban areas - Oslo, Kristiansand, Stavanger, Bergen, Trondheim and Tromsø – which together account for 74 per cent of all firms; only 5 per cent of consultancy firms are located in rural areas. These figures, however, underplay the geographic concentration since 47 per cent of firms are based in Oslo.

It is well known that producer services concentrate close to significant concentrations of client companies and ‘producers’ of expertise and knowledge. This type of ‘clustering’ behaviour reflects the location of centres of expertise, professional lifestyles based around urban areas and the co-production or joint production of services with co-present firms. In Norway, however, the geography of management consultancy is becoming less concentrated. Between 1994 and 2000, differential growth occurred with greater numbers of new firms being established in rural areas (cf. figure 1). The changes shown in figure 1 are important as they suggest that large urban areas may have acquired producer service firms at an earlier stage than rural areas, but rural areas are beginning to catch up. By 2000 rural areas contained more management consultancy firms than the six large urban areas did in 1994.

Figure 1

Compared to the UK, the Nordic countries seem to be marked by a lower market concentration of providers of management consultancy. According to a recent overview (Kipping, 1999) based on 1996 figures,¹ the top 20 management consultancies accounted for 39 per cent of the the Nordic consultancy market². This compares with 84 per cent for the UK. Although the concentration in the Nordic countries must have increased since then – particularly because the big multinational consultancies have increased their market share – the dispersed nature of much Nordic business suggests that market concentration is still limited. Still, from a European perspective, the Nordic countries and the UK appear to belong to that part of Europe that has a well-developed consultancy sector.

To explain the use of business services amongst small and medium-sized enterprises (SMEs) it is necessary to explore both supply and demand issues. In the case of supply, it is well documented that big multinational consultancies offer a broad range of services pertaining to organization and management, ICT, human resources, financial and administrative systems, production management etc.. They have also increased their market shares through the acquisition of domestic providers, and sometimes through mergers between international providers (cf. for example PriceWaterhouseCoopers) (Kipping, 1999). This is not to suggest, however, that the strategies of these firms have been to establish branches covering all industries and regions in Europe. A recent Swedish study based on 1997 figures (Furusten and Bäcklund, 2000) shows that there is a concentration of large international consultancies, including American and semi-American consultancies, in metropolitan areas, in particular Stockholm and, more importantly, that the turnover of these companies is also concentrated in the Stockholm region. Only between 11 and 18 per cent of these firms’ turnover comes from outside the metropolitan areas. In contrast, 33 per cent of the turnover of small and medium-sized Swedish consultancies came from non-metropolitan areas.

These differences between metropolitan and non-metropolitan businesses need to be explored further. It may be the case that branch offices of global companies locate in major cities in

¹ The data has to be taken with caution because of the difficulty in collecting reliable data on consultancies.

² The data on the Nordic countries is taken from Denmark and Finland

order to provide services to the branch plants/offices of large client companies (Kipping et al., 1999). In countries with difficult geographies these large global companies may have a limited impact on firms located elsewhere in the country. They may, of course, just be servicing large local clients, and be less unwilling to deal with smaller less profitable customers (Rusten, 2000).

Unfortunately there are neither many nor recent studies that cast light on the demand side of the consultancy/client relationship in Scandinavian countries. Still, the few that exist give us some general ideas of the kind of firms that use consultants, why they use them, and some criteria for producing services that clients regard as successful. An example is Rynning (1991) who concluded that both the assessment of the selection of consultancy, the roles played by the consultants, and the problems concerning implementation often converged between provider and client. Despite this, clients sometimes felt that the consultants' knowledge of local conditions was too restricted. Successful knowledge/expertise transfers (based on the managers' judgements) generally came about when other clients recommended the provider or when clients' personally knew the consultant. In another study, Ulset and Reve (1983), concluded that business size in itself did not explain the use of consultants, rather it was the active use of networks that encouraged its use. In particular, it was the advice of private banks and accountancy firms that encouraged firms to employ consultants. This role of third party organizations is reflected in the work of Buvik and Hervik (1991) who found that 30% of the clients of a regional consultancy service provider noted that a third party (banks, public banks etc) directly or indirectly made them employ a particular consultancy firm. Moreover, 40% would not have engaged the consultant unless they were receiving public subsidies for the assignment. Empirical evidence based on a survey of 416 SMEs in three manufacturing industries (1-250) in Norway showed that larger firms (50-250 employees) were more likely to purchase consultancy services than smaller firms. It also showed that among the smaller firms those in urban locations are more likely to purchase consultancy expertise than those located in rural areas (Rusten, 2000).

3. The Difference that Norway makes to the Producer Service Literature

This research begins by applying the processes and concepts identified in the existing producer service literature to Norway. The methodology is a combination of a telephone survey and detailed semi-structured face-to face interviews with senior staff in 12 firms undertaken in 2002. The intention was to explore the choice and nature of the relationships these firms had with management consultants. Where possible both the clients and consultants were interviewed. The interviews were tape-recorded and transcribed. To protect confidentiality firm names have been altered in this paper. The sample of client firms was stratified to include two different kinds of manufacturing sector: food manufacturing and electro-technical industries. Both industries have high proportions of SMEs. Client firms were equally divided between metropolitan and rural areas. It is important to note that client firms were approached first and asked to explore their use of consultants, and than consultants were identified. This paper includes information from 3 client firms and their experiences with consultants, and additionally information based on interviews with two consultants. It should be noted that the three client companies are located in some of the regions known in Norway for their down to earth business culture especially in relation to decisions involving money. Asheim (1999) has also worked on these regions and identifies their business culture or 'industrial atmosphere' as being a product of the Protestant Work Ethic and the fact that close horizontal inter-firm cooperation is a common mode of business organisation.

Some of the consultancy firms included in this study are subsidiaries of large multinationals. Other cases are smaller firms or even sole practitioners that operate on their own occasionally from a home-office. Obviously, given the restrictions of the sample, the results presented cannot be taken either as representative of the population or as representative of the full range of purchasing practises that exist. Nevertheless, the case studies that we have included in this paper illustrate various types of choices and strategies that might lead to the recruitment of consultants and how the process of sourcing and project performance are influenced and formed or shaped by geography.

The key issue that needs to be addressed is: how then can this study of Norway add to the producer service literature? This research has identified two issues that need to be investigated through comparative research: 1) processes related to nation size and 2) the geography of client/consultant interactions. These will be explored in turn.

Size

Norway is a small economy and population. Consequently, firms and individuals working within a specific economic sector are likely to know each other or at the very least be aware of their competitors as well as adjacent companies. This type of '*closeness*' can be regarded as an advantage as it generates trust and reduces transaction costs. Closeness occurs in societies and spaces in which there are layers of interwoven 'weak and strong ties' that bind a business community together (Bryson and Daniels, 1998). For management consultancy firms this closeness produces a fundamental problem. Every consultancy firm needs to be seen by the business community to be operating in a professional manner and in the interests of their clients. The social structures that bind the Norwegian business community together, that are forged on the back of the size of the country as well as a form of lock-in associated with the Norwegian language, ensures that consultancy firms operating in an inappropriate manner will soon find it difficult to obtain clients. The consultancy firms are very aware of this problem and try to ensure that they do not enter into client relationships that produce conflicts of interest. Being too close to some clients means that the consultant has to exclude some firms from their list of potential target clients especially when everyone is aware of each other's business activities. Closeness operates nationally and regionally. It can become difficult for a consultant based in a Norwegian small town to work for competing companies that are located in the same area and in some cases difficult to work for companies competing in the same field nationally.

Norway's small size also has important implications for the ways in which local entrepreneurs construct their social identities especially in relation to the ways in which they relate to the country's geography. There are two related processes at work here. First, long travelling distances within Norway means that a high proportion of travel is by air. The majority of companies are within a two-hour door-to-door travelling time (car-plane-rail) of the main business centres. This perceived nearness is another dimension of the '*closeness*' of the Norwegian economy. The country's difficult geography (the mountains and fjords) might appear to make travel difficult, but the dispersal of activities around the country ensures that meetings in Oslo travel has become a central aspect of the day-to-day experience of doing business in Norway. For example it is quite usual for firms in Bergen to send their staff to frequently attend to meetings in Oslo.

Second, the face-to-face interviews identified that business travel has become wrapped up into the ways in which Norwegian business people construct their social status. Willingness to travel and having to travel to conduct business are seen as positive elements of the social

standing of an entrepreneur. In Norway flying for business has become a normal and expected part of successful business activity. This is one of the reasons why the geography of client producer service interaction is altering in Norway. Cities, towns and regions with very tightly knit social systems make it difficult and in some cases impossible for some producer services to be produced and consumed locally. Some types of management consultancy require distance (geographic and social) to be maintained between the client and the consultant. This is especially the case for small regions where consultants have to meet clients and their employees socially. A consultant who has been involved in making friends or friends of friends redundant will find it difficult to maintain a social role in a tight community. An additional aspect is image connected to location. Hermelin (1997) in a study of the service sector in Sweden, noted that several managers considered that law firms in the capital were, in general, considered to have better reputations than those located elsewhere. When searching for external consultancy expertise some Norwegian SMEs have a tendency to be influenced by symbols associated with the location of a consultancy firm and prefer those from major urban areas. There are those that avoid consultants that spend lots of money on office premises and travel; in this case the clients believe these service providers are more expensive than consultants that adopt a more down-to-earth approach to business. It is well known in Norway that there are regional differences in business culture that are reflected in the attitude or approach to doing business. At a very simple level, some regions have firms and managers that take a very common sense or down-to-earth approach to business in which business status symbols (expensive offices, office furniture) are not seen as desirable (Asheim and Cooke, 1999; Rusten, 1997).

However, this argument over the relationships between country size and the formation of business identities needs to come with two notes of caution. First, just because it can be shown that small economies differ in some respect, it does not follow that all businesses in small economies possess these characteristics (Collett, 1995). Second, the argument is not that Norwegian culture is responsible for the processes identified in this paper, but rather that there are different ways of doing business, and some of these differences can be explained by the size of the local economy and variations in business culture. The existence of distinctive Norwegian regional business cultures has been well-documented (Asheim, 1992, Rusten, 1997, Isaksen, 1999, 2000), but it is difficult to separate cultural specific influences from the size of the economy. The difference that the size of the economy makes to the behaviour of producer services and their clients may be more about the operation and activities of spaces that have dense close social systems than the size of the national economy. The processes at work in Norway will also operate, for example, in small towns in France and the United Kingdom. This issue, however, requires considerable further research.

The geography of client/consultant interaction

The search process for producer service expertise is driven by social relationships, but in smaller countries social closeness may mean that this process is more efficient and effective than in larger countries. An imperfect market place for producer service expertise does exist. Part of this imperfection is the difficulty a client has in determining the quality of a supplier's expertise. The problem is wrapped up in a product – knowledge - that is intangible and difficult to measure. One way of overcoming this imperfect market is to employ individuals and companies that the client already knows either directly or indirectly. There are two processes at work here. First, employment of a firm on the basis of trust or on a relationship that is founded on direct experience between the agents involved in the relationship

(Nooteboom, 2002). Trust is a relational construct that is constructed during a process of interaction in situations that cannot be completely controlled or regulated by contract law. The problem with the provision and consumption of knowledge is that the possibility exists that one party to the contract will interpret its terms in an opportunistic way (Livet and Reynauld, 1998). There is also the alternative problem of individuals who lose trust in a firm or cannot fully trust knowledge provided by a possible competitor or maybe foreign provider. The relational nature of trust means that it may be difficult for an observer to understand the nature of the relationship and the decision-making process because part of the process is governed by events that have happened in the past. Geography becomes important in that trust is acquired through frequent face-to-face interaction, and tends to decline without regular meetings. Trust operates at the level of the individual, whilst, the second process, reputation is tied to both individuals and companies. In this case large companies invest capital in creating, maintaining and managing their corporate reputation as it is this that they are selling to clients rather than the services of an individual known consultant. A firm's reputation is in effect a public good that an employee and clients can benefit from even if they have not contributed to its construction (Lazaric and Lorenz, 1998: 5). Very simply it is possible to argue that the decision to employ a consultant is for large firms influenced by reputation; they want to acquire some of the reputational capital of the provider. Whilst for SMEs the process is built on trust, informal agreement rather than weighty contracts.

The relationship between clients and consultants involves three different types of interaction that are influenced and in some case determined by geography. The difference between these types of interaction rests on the type of knowledge/expertise required by the client company. This analysis builds on the existing literature that lays considerable emphasis on the client search process as the controlling factor in determining the location of a consultancy firm employed by a client company (Beyers and Lindahl, 1996). It is also important to note that these types of interaction are not mutually exclusive, and that the same firm can employ consultants using each of these strategies. What is happening is a complex interplay between management strategies, requirements for particular types of expertise, size of company and consultancy project and finally geography.

First, some client companies prefer to use local knowledge, or in other words to employ the services of a local producer service supplier. This desire for local knowledge can be termed *propinquity*. The work of Bryson and Daniels (1998) and Rusten (2000) has shown that SMEs are heavily reliant on highly localised producer service firms. The explanation for this localisation is usually founded upon the imperfect market that exists for producer service expertise and linked to the social relationships through which clients identify and recruit producer service firms. Norway, however, provides two additional explanations for this dependence on local expertise. First, the companies and the consultants emphasised the importance of *social nearness*. By this it is meant an understanding of local cultures, languages, dialects, ways of doing business, ways of thought as well as friendship and knowledge of each other. Social nearness is part of the social relationships that drive the client search process, but it is also about detailed micro knowledge that aids the relationship between the client and the consultant. A good example of this is knowledge of local dress. Across Norway there are different attitudes to work that are reflected in business dress. Thus a consultant working with a client in one of the less formal business regions will have difficulties if they engage with the client in formal business attire. This is one of the most obvious examples of the operation of social nearness in the client consultant relationship, but it also includes less tangible and sometimes tacit knowledge related to the ways in which the

consultant works with the client-company and most importantly understanding of a particular regions attitude to business.

Consultants working in such areas have to work within this regional business culture and ensure that their sales pitches are targeted at making a positive and identifiable contribution to client's profitability. Second, for particular types of expertise a firm located in a 'close' place will prefer to employ local providers of producer services. This is a *patriotic factor* in which a concern with the survival of a local community may take precedence of other factors.

The second kind of situation refers to the preference of some client companies to employ consultants who are removed from local social and business networks. Such clients want to obtain forms of *dislocated knowledge and expertise* that is either not readily available to other local businesses or the client needs to undertake a task that would be difficult if the consultant was an established member of the local business community. The requirement for dislocated knowledge appears to be a feature of small heavily localised business communities especially if the consultant is being employed to downsize the client's company. Consultants are used to support and in some cases appear to implement difficult decisions already taken by the management team. The best example is where the consultant is used to identify employees that are going to be made redundant. In this case the consultant, client and employees would find it difficult or even embarrassing to meet the consultant socially. Managers obtain a third party opinion on their decision and in this way hope to maintain their credibility with employees as they appear to be one step removed from the decision-making process.

This form of dislocated knowledge operates at a variety of scales. In multinational organisations a management team from another branch can be used to provide 'external' advice to another branch. In some cases this knowledge and expertise is used to establish a centre of excellence that is used to support a larger consultancy firms client relationships. Major multinational management consultancy firms, for example, use dislocated knowledge by assembling a team of experts drawn from its offices both nationally and sometimes internationally. In this situation, the consultants can obtain the advantages of heavily localised, culturally aware and socially embedded consultants whilst drawing upon the advantages of knowledge and expertise that has been developed centrally to deal with problems and issues that could not be maintained in a small regional or national economy. The spatial organisation of management consultancy is especially important here as the consultancy firms are able to assemble teams of expensive 'dislocated' 'front office' experts with groups of lower paid 'back office' consultants located away from global or capital cities.

The third form of client consultant interaction is when the client is *insensitive to distance*. The client's requirements for external expertise is linked to the firm's regional, national and international networks of social relationships through which a significant proportion of producer service firms are identified and employed. In many respects these types of clients are spatially disembedded from highly localised knowledge networks and instead prefer to draw upon the expertise of established firms with developed reputations, consultants they have used before, as well as the purchasing policy formulated by the firm. In the case of multinational companies the headquarters may decide on how consultancy firms are to be identified and in many cases will take control of the producer service search and selection process. It is important to note that there are difference between the ways in which larger companies; control the consultancy recruitment process; in some cases the decision will be made by the head office and in other cases these decision are delegated to branch plants and offices.

4. Consultants and their Clients: A Case Study Analysis

In this section we explore three case studies that highlight the relationships between Norwegian SMEs' strategies for engaging knowledge providers and the resultant geography of this interaction. In the interviews firms were asked about their policy for using or not using consultants as well as the reasons for using consultants and the mechanisms used to identify consultants.

Local Knowledge: The Case of Urban Food

The first case, Urban Food, is an excellent example of a firm that was searching for local knowledge. The project involved a transfer of relatively low-key or standardized business knowledge and, in this case, there were no major concerns regarding the requirement for the company to maintain some degree of social distance from the consultant. The project concerns a training course designed to upgrade the skills of middle managers to ensure that they would be able to deal more efficiently with daily management tasks as well as being able to negotiate successfully with foreign firms.

Urban Food is a medium-sized (about 20 employees) locally owned firm, dealing with processing and preserving fish and fish products mainly for export. It is located in a larger urban area surrounded by a fairly well developed service infrastructure. We interviewed the chief accountant (CA) about the business, management attitude towards using consultants and about the details of a project they had recently undertaken using a local consultant that specialised in management training. The chief accountant was sceptical about the value of consultancy knowledge and especially about the relationship between the cost and benefits of employing a consultant. This type of 'mental distance' or 'scepticism' to using consultants is quite common in Norway and is based on a local culture that places considerable emphasis on obtaining value for money. Related to this is a lack of awareness of consultants apart from the general distrust of consultants that is a common feature of the business press. The reason why a consultant was engaged was that the firm had no free internal capacity to organise the training in between the demands of running the business. The consultant was also able to identify solutions that the management team had not considered. The project is a combination of training and advice accomplished through seminars, face-to-face meetings and by giving comments on reports written by the participants. The consultants used e-mail to provide comments on the reports, but it is important to note that this form of remote consultancy only formed part of the client/consultant relationship. An 'end-of-term' exam was organised and the process accredited by a regional college. The exercises are done in groups and different management levels take part in the training. The seminars take place every seventh week either at Urban Food or at rented premises in the vicinity.

From the viewpoint of Urban Food the decision to employ the consultant was based on the reputation of the firm, based on information from others and eventually on their own experience. Thus, the search process was relatively restricted. Our key informant emphasized that it was important to have some previous knowledge about a service supplier before any further involvement. He put it this way:

When you have been working for some years you know quite a bit about what is going on, at least here in this city. We know their [the consultants] way of working and their capability to deliver according to our needs. . . The price was, of course, also in question. Having a consultant that has to spend money

and time on travelling will of course represent an extra cost that comes on top of what they otherwise take for doing this job.

Because of this, local alternatives will usually be highly price competitive with those located elsewhere. Keeping search costs low, avoiding having to spread sensitive business information around too many consultancy firms, and reducing the consultant's learning curve reinforces already existing business relations held with the consultants. The CA at Urban Food noted that they favour small providers:

Smaller firms seem to more easily identify themselves with us and our specific needs. Consultants in larger companies easily oversize our tasks as if we were Norsk Hydro. Another clear disadvantage of using large business service providers is that they have a tendency to use the same concept no matter what our needs seems to be, instead of tailoring the project to our specific needs. They often look for the possibility to define a new issue in the end of the project, by leaving an interesting question unanswered.

The consultancy is a micro-firm employing only two people. The manager's earlier career within the food industry is the basis for specialised competence in this sector, and also the reason why firms in that particular sector make up the majority of customers. Still, due to the competition between firms in this sector this consultancy firm is unable to work for all firms in this sector. Doing business with some of the firms, in fact, means being excluded from getting involved with others. According to the consultant this is more a self-imposed precaution for confidentiality than something that had been formalised through their contracts.

Personal relations played an important role in the development and appointment of the consultancy firm. According to the consultant, the chairman of the board of Urban Food was the manager of a firm in which the consultant used to work. This individual obviously had some influence on the selection process and the chairman suggested that Urban Food might be interested in the assignment. The actual negotiations did, however, take place directly with the management of Urban Food.

According the consultant, personal relations are also essential as his business is very small and its financial resources and marketing capacity are limited. A strategy of 'knocking at doors' or cold calling is not worth the time and energy, as the obtaining client projects is based on reputation and trust. For the same reasons this consultant's previous network, based on his earlier industrial background, will contribute to the geographical formation of his network or future clients. The geographical range of this consultant's activities has increased as his major clients have engaged in mergers and acquisitions. The result is the establishment or acquisition by his contacts of several production units in different parts of the country. This consultant is a specialist working in one sector, and this means that he has projects all over Norway. He and his colleague are fully occupied and have plans to recruit additional staff if and when their client portfolio expands further. Their contracts were, in other words, not only based on local clients such as Urban Food. This last point highlights the process of becoming a consultant; new firms usually begin with very local clients, but if they are successful, the geography of their activities will expand as their reputations spread either through word-of-mouth, but maybe more importantly the movement of managers, directors or non-executive directors between companies and through the merger activities of existing clients.

Dislocated Knowledge: The Case of Rural Electronics

The second case concerns a consultancy project in which there were considerable advantages in obtaining consultancy expertise that was dislocated from the local community. The important point to make here is that only particular types of projects require this form of dislocated expertise, and such dislocation is really only a process that operates in relatively close communities.

Rural Electronics is a medium-sized firm with around 70 employees that provides accessories and electronic solutions to its clients. The firm is located in a rural community on one side of a fjord 40 minutes from a metropolitan area. Ninety-five percent of its production is exported, but most of the trade goes through dealers. Parts and components are purchased worldwide, either as once only offers or as part of long-term agreements. Promotions on the Internet, exhibitions, information about competitors, as well as direct requests from potential suppliers are all important information for the sourcing of supplies.

The manager told us that the firm had an overall philosophy to try to avoid consultants and in order to save money they tried to undertake most tasks themselves. However, they had recently hired a management-consulting firm to advice on internal communication and staffing matters in an attempt to reduce costs. According to the manager it is quite difficult to downsize firms located in small communities, where everybody knows each other. The problem is that the employees are loyal to the company and:

This loyalty works both ways, but as for the employees the reason may be the lack of alternative jobs. Hiring a consultant detached from these social ties is actually a way to tackle these sometimes unpleasant organisational issues.

Their consultant was located in a metropolitan area located on the other side of the fjord one hour away by boat but he knew several of the firms in the rural community quite well. He had known some of the owners for years, including those at Rural Electronics: *“By hiring Nils we got somebody we knew and thereby we avoided a situation where we had to deal with a junior.”* It also meant that the client/consultant learning curve was reduced and that the client knew the consultant reasonably well. This type of trust-based relationship was especially important for this type of cost reduction employee redundancy project.

The client described the relationship with the consultant as being long-term and one in which *“If he [the consultant] changes his employer, we will be following him ...”*. The client had entered into a long-term relationship with the consultant by negotiating and signing a framework agreement or retainer that ensures that the firm obtains the necessary attention from the consultant whenever it is required. This will, according to Rural Electronics save the consultant from energy spent on getting new customers, and *“In return for this commitment, we get the job at a lower price.”*

Access is also a reason for choosing a consultant located near the client firm. *“Using one that knows the region is an advantage. He will more easily sense the firm’s special needs.”* It is argued that one useful search criterion when looking for a consultant is to find out whether they would be willing to visit the company prior to their assignment. The consultant’s advice is mostly given through conversations either over the phone or face-to-face at the production site. It has not being organised through projects. Besides meetings and observations, the interaction also includes training.

Nils, the consultant, characterises himself as a process consultant who advises managers on how to negotiate. He used to be the local manager of a large multinational consultancy firm, and is well experienced in his field. He now runs his own business. His firm is situated in a centrally located office that he shares with another consultancy firm. His portfolio includes private businesses as well as some public institutions across the country, and he also works in Sweden and Denmark. The main market though is regional. This is also the market that takes priority when he is able to choose project, but “*However nowadays communications allows much travelling.*” Most aspects of *Nils’* client’s projects occur at the customer’s site, travelling is, however, not considered to be a problem as travel expenses are a relatively small proportion of the total budget.

The geographical range of his projects depends on the geographical range of his social networks, and therefore they are usually only partly local. The networks are also constantly changing as people move and information flows. Still, according to the consultant there is a sort of hierarchy in the national market as there are relatively few consultants working outside Oslo that have customers in Oslo, but again this mostly has to do with the reach of his networks. His capacity is 5-10 customers at a time, and he finds no need to actively market his business. He argues that the customers do the marketing for him by talking about their experiences to friends and business acquaintances. *Nils* argues that the customers base their choice of which consultants to use on their own or others’ experiences. Likewise, the consultant uses his network for checking out whether a request is worth following up. Norwegian economy is an advantage as its “*relatively small size means that one knows a relatively large proportion of the firms, especially those located in the region or within same business area.*”

According to the consultant, knowing the local culture is an advantage because project delivery is better tuned to the needs of the customer. Still *Nils* considered that some clients prefer consultants that “fly in” to do the project and “fly out again:

Its like when a couple needs a marriage broker, you normally would not choose to use your nearest neighbour for fear of later meeting this person on the street. This is also the reason why some prefer consultants from other regions. This may, of course, sometimes be wrong, as there are considerable cultural elements that have to be taken in consideration when giving advice. This is especially important in process consulting where you need lots of information to be able to do a good job. You have to do the right things, and to avoid being too formally dressed when you are dealing with some of the rural firms.

Nils also noted that some of the larger consultancies locate some of their subsidiaries outside Oslo. This allows them to be closer to customers in other regions, but also permits them to assemble project teams that take advantage to regional differences in consultancy salaries. Less expensive staff from outside Oslo can be deployed to work for Oslo based clients. This implies that the larger consultancy firms are able to retain a competitive advantage by manipulating a spatial division of consultancy expertise or knowledge. A regional presence is, in other words, not necessarily motivated by a desire of having to be close to the marketplace. *Nils* himself did not really feel threatened by the competition from these subsidiaries. The marketplace for consultancy is structured by price differentials. Some of the smaller consultancies working in less prestigious localities maintain lower prices and are more attractive to SMEs that are reluctant to spend money on consultancy services.

Insensitive to distance: The Case of Rural Marine

The third case concerns a firm that was relatively consultancy adverse, but decided to employ a consultant by trying to identify a firm that was recommended by a business acquaintance. In this case the recommendations was more important than the location of the consultancy company and distance was seen not to be a major issue in the decision to employ this firm.

Rural Marine produces bulk ocean-based health food products on contract to mostly larger foreign dealers. The firm has achieved a pharmaceutical certificate (GMP) to manufacture bulk marine and vegetable oils for pharmaceutical use. The firm is profitable and financially secure as it operates in a growing market. A quarter of the staff of 25 workers hold either university or college degrees. The general manager (GM) noted that compared to 'lower skilled' workers educated workers are more valuable as they are more outwardly oriented. Besides their formal competence, they possess the interest, self-assurance and ability to gather information and proactively solve new problems.

The firm is situated in a small town located near to an airport with frequent departures to Oslo. This region is known for its marine and maritime industry, but Rural Marine is connected to the local economy primarily through relationships with service suppliers. The GM also holds a major block of shares in the firm.

In general, the GM holds a negative opinion of consultants and the firm tries to avoid spending money on them preferring to use its own in-house resources. The objections to consultants is not merely that such providers are very expensive but that they also spend a lot of time collecting information from either the firm or its suppliers that the firm's staff could do itself. Seen from his point of view, the hiring of consultants is not so much a question of competence or know-how as it is a question of the trade off between hiring people or employing people to do basically the same tasks. This is really part of the well-known transactions cost debate (Beyers and Lindahl, 1996).

The question of hiring is also tied to responsibility. The GM stated that: "*it is too easy to be a consultant*" since the consultants do not have any real responsibility for the outcome of the project. Rural Marine is not interested in spending 100 000 NOK (about £8.000) for nothing. The GM admitted that sometimes it might be advantageous to hire a consultant even to the extent that the project might 'pay off.' There are also local consultants around that '*don't do unnecessary things*'. Nevertheless, he argued that the transparency that exists in small firms makes it sensible to use internal staff. In larger firms where no one really has an overview, it is easier to use consultants, sometimes, probably, because the management needs someone to legitimate unpopular decisions. In his firm that would not work because everybody knows what is going on in any case.

It turns out that the firm has used consultants, and that one big assignment in particular explains the negative view held by the GM towards consultants. A provider from another part of the country was hired 18 months before the interview to assist with a requirement to expand production. The consultant was identified on the basis of a tip obtained from someone in Rural Marine's business network. After some time and an expenditure of almost £13,000 the contract was terminated. The assignment was made in order to save money, but it turned out that what the consultants' did was merely contacting equipment supplier and assembling information. They did not appear to possess any unique competence. The suppliers themselves knew what to do. Therefore, the consultants were unnecessary and their work

could have been done by the firm's own staff – and at a lower price. Thus, in this case the expenditure on consultancy was seen as a waste of time and a project that did not pay off.

At the time of interview, the firm was considering whether to hire a consultant or employ an additional member of new staff to work with a new quality assurance system. According to the GM, they are most likely to employ a full-time staff member. Based on their past experience they noted that the necessary information was easily available from their suppliers and other local businesses and that building up in-house competence was judged to be a better solution at this point in time. It was considered that in future the company would not have to rely on consultants as the firm could learn from other local businesses and lean on the relationships that it had developed with other firms in the region. This firm was thus able to replace a requirement for consultancy provided knowledge with expertise and knowledge either sourced internally or through relationships with other local firms. Currently, the firm's industrial milieu, to some extent, represents an alternative to purchasing specific knowledge and expertise from consultants. To complete the picture, it must be added that Rural Marine purchases services on a long-term basis from several local providers. For instance, it uses a local IT-firm for its IT installations and support, another firm for web-presentations and a local accountant and bank. When necessary, the bank, the accountant and other suppliers are asked to advice on business issues. It must also be noted that Rural Marine has a very educated workforce that is increasingly able to draw upon its own expertise and to learn from other firms as it develops and expands.

5. Conclusion

Several studies have explored the ways in which client firms appear to search relatively locally for producer service expertise. These studies have investigated clients or suppliers but very few research projects have attempted to undertake a matched pairs analysis of clients and consultants. This study has explored the role of geography in the client search process for consultancy expertise as well as the way clients and consultants interact during the consultancy process. Our findings suggest that geography plays a much more complex role in this relationship than has been previously identified. Closeness between the SME client and the consultant has been identified as being extremely important for minimizing transaction costs and for ensuring that both parties trust each other. However, sometimes distance can be an advantage and closeness a disadvantage. Clients may prefer forms of dislocated knowledge especially when the consultancy project involves difficult personnel issues or where the client wants an objective or independent perspective on an internal decision. This appears to be especially important for Norway where the social closeness that comes with the size of the country needs sometimes to be undermined by social distance, or in other words using expertise that is not situated in local social networks – be they business or community related social networks and institutions.

Not all consultants need to be socially distant from their clients. In some cases, clients are insensitive to distance and prefer to identify consultants drawing upon personal knowledge and business networks. In this case the networks identify the consultants and geography does not matter. In some cases, local knowledge is preferred either for cost reasons or forms of local or regional understanding. In some cases local firms prefer to employ local firms in order to support the local economy – a form of local patriotic purchasing behaviour. An important observation that comes from all 16 case studies is that local preference is not exclusive to rural firms but is also an important search criteria for some urban clients.

The existing producer services literature does not take consider that the capability and willingness to spend money on consultants may be sensitive to geography. In Norway, managers are accustomed to travel to meet business partners and consider travel costs as a “natural part” of their everyday expenses. Another important element in the relationship between companies is distance measured in time rather than in kilometres. For example, it takes about two hours to get from most businesses based in central Bergen (the second largest city), to Trondheim or Oslo (about 500 km in distance by air). Many rural areas adjacent to regional airports are also relatively close in terms of travelling time to most businesses in Norway. Compared with commuting times in London and Paris these travelling times suggest that geography matters but in quite different ways.

One important observation from our cases studies is that many projects are based on personal relationships. These relationships stretch over space and time and also operate as weak-ties or bridges to producer service expertise. Consultants are recruited drawing upon the advise of friends or using consultants that the management have worked with in the past, maybe whilst working for another company. Furthermore, the initiative for some of these projects may come from the Board and not from the managers directly involved with running the business. As people move these relationships are broken in space, but still exist as a form of dislocated social relationship constructed on prior experience and trust. Overtime the geography of these relationships alters, and maybe weakens, but client/consultant relationships are fundamentally driven and controlled by such personal relationships.

The case studies have also shown how the changing geographical range of existing client firms influences the geography of the client/consultant selection process. Repeat business ensures that relationships between individuals and firms are maintained as the client is satisfied with the advice. There is an important subtext to this process that requires further research – client concern over ensuring that not too many firms have access to confidential information regarding their firm. Repeat business guards against this problem and reduces the time and cost of the consultancy learning curve. Consultancy involves face-to-face interaction especially to create and maintain trust, however, some consultancy projects contain a mixture of face-to-face interaction supplemented by e-mail, telephone and other forms of providing a service at distance.

Several studies have explored the nature of information, for example, how much is formalised in written material, how much is tacit and thereby not codified and how a mix of these types influences the ways in which communication takes place. Will for instance tacit knowledge eventually influence whether firms seek local suppliers? The way in which client/supplier communication occurs is further complicated by the fact that some tacit knowledge is acquired by direct take-up based on experience. Further are there knowledge spillovers associated with scientific intuition and mutual creativity (Howells, 2002). An important aspect that often is neglected in this discussion is that the friction of distance will also depend on how projects are organised. One of the consultants interviewed was able to operate in different locations across the country simply because his advice was delivered through packaged seminars without having projects coming in conflict with another. Furthermore, will there be a difference in transferability between consultants that are so called ‘content providers’ compared with those they are involved with ‘process consultancy’. The latter will usually require a close analysis of what is going on in the firm by observations and conversations with employees. Whereas the former can more easily be provided remotely through paper supplemented by telephone, e-mail and face-to-face interaction. However, a project that requires regular meetings at the production site does not necessarily mean that the

parties have to be located near each other. One manager told us that he clearly saw the advantage of using a non-local consultant from Oslo. He knew that the consultant would concentrate on the project and on no other contracts when s/he visited the firm. For the client/consultant relationship geography matters in multiple ways – proximity between the consultant and the client is both an advantage and a disadvantage, whilst distance between these two parties provides social distance from the local community but not from the employer.

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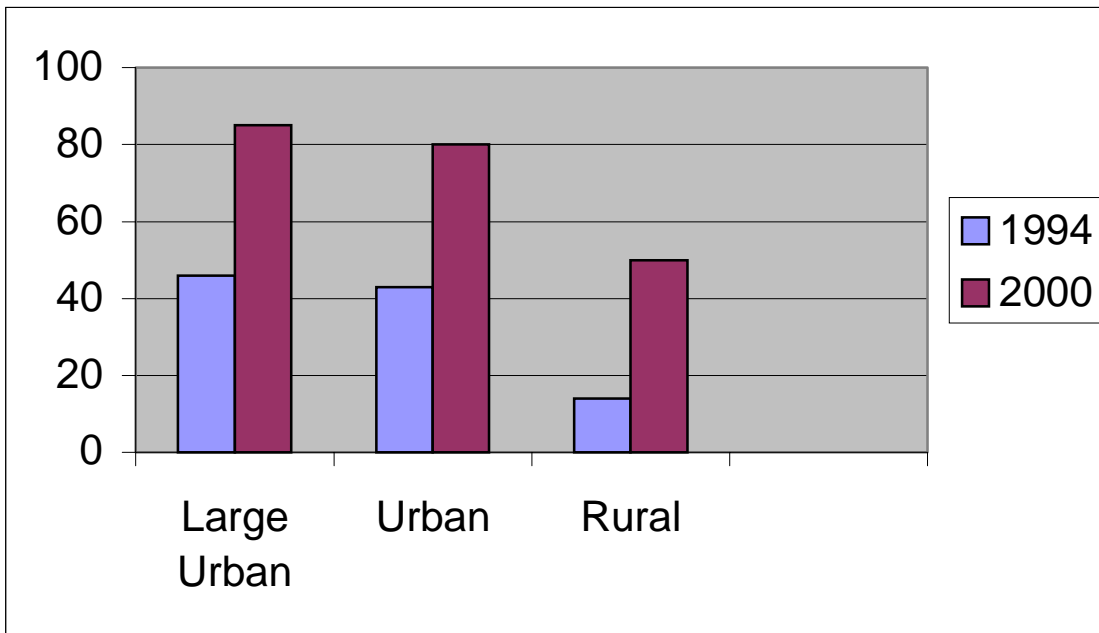


Figure 1. Management services in Norway, status 1994 and 2002. Measured by the coverage rate of municipalities that have these firms. The municipalities are classified by centrality groups (Statistics Norway 2000, not previously published)