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<cn>12. <ct>The organization of service business

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<a>INTRODUCTION: ORGANIZING SERVICE BUSINESSES IN THE TWENTY-FIRST CENTURY

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This chapter begins the third major section of this *Handbook* concerned with ‘managing service business’. We begin by considering the state-of-the-art knowledge about the nature of service business organization in the twenty-first century, with a particular focus on how this relates to the organization of service activity across space and between places in today’s (unevenly) globalized economy. Later chapters in this section and the next will examine some of the issues that arise in more depth, such as human resource management and the nature of service business globalization, but first there is a need to provide a broader overview of how service firms in the global economy are organizing their activities. This chapter therefore focuses on organizational processes which, it is argued, have a strong (and arguably increasingly) geographical dimension to them as service industry activity integrates at a variety of scales. In that sense, the following discussion provides an important context for understanding how service firms are addressing the major challenges discussed in subsequent chapters, including those posed by economic globalization, newly emerging economies, changing information technologies and the evolving needs of clients.

The approach taken draws on a broad and interdisciplinary social science literature

including work in management studies, economic geography and organizational sociology. Since the development of debates about the emergence of service-dominated economies in the latter part of the twentieth century (Bryson et al. 2004), research into the organization of service business activity across all of these disciplines has focused on the significance of service firms to advanced industrial economies (and especially knowledge-intensive business services – KIBS). During the 1970s, early studies sought to examine the numbers of service firms within regional and national economies, and assess the value of their inputs into economies overall (Beyers et al. 1985). In the 1980s, regional scientists and economic geographers began to provide insight into how service firms organized geographically with respect to serving markets (Beyers et al. 1986; Daniels 1993). Over the past 30 years a considerable body of work within economic geography has thus engaged with the locational strategies of (knowledge intensive) business services (Bryson et al. 2004). Much of the work stemmed from an interest in the vertical disintegration of manufacturing corporations and the externalization of the provision of services such as advertising and IT as part of a shift towards what have been variously classified as ‘post-Fordist’ production methods (~~on which~~ see Wood 1991; [Faulconbridge & Jones 2011](#)). More recently, this work has also explored the spatial organizational strategies of a range of producer service firms that provide knowledge-intensive advisory services exclusively to business. Studies have focused on sectors including accountancy (Beaverstock 1996; Daniels et al. 1988), advertising (Clarke and Bradford 1989; Grabher 2001; Faulconbridge 2006), executive search (Faulconbridge et al. 2008; Hall et al. 2009), law (Beaverstock et al. 1999; Jones 2005; Faulconbridge 2007a) and management consultancy (Jones 2003; Strom and Mattsson 2005, 2006; Glückler 2006).

However, since the 1990s it has also become apparent that the organization of service business activity is changing in complex ways, both within and beyond the level of the service firm itself (Jones 2007). Service firms have undergone significant processes of

internal restructuring, and service sectors have witnessed the emergence of increasingly internationalized firms that have experimented with a number of organizational models (Jones 2003, 2007). At the same time, and especially in the twenty-first century, new information technologies and falling transport costs have led to a more radical reconfiguration of service business activity. Service sector employees in many industries have become more mobile, and internationalization has led to the need for increased worker mobility in some areas, as well as the deployment of new technologies (Beaverstock 2007; Beaverstock et al. 2010). Information technology has also allowed new organizational models with outsourcing and new, distributed, subsidiary network forms of business organization in some service sectors. Overall, therefore, in the twenty-first century many of the existing understandings of service business organization that emerged in the last decades of the previous century have become considerably more complicated and undergone some degree of transformation.

This represents the entry-point for this chapter, and the following discussion will assess the different dimensions to this contemporary complexity of service business organization in a series of stages. It draws on work that has primarily been undertaken at the level of the firm, although research into particular service sector industries also plays a part. Much of the discussion will revolve around the new geographies of service firm organization, and new processes that are used by service firms to organize their activities. This reflects the proposition that many of the transformations of service business organization reflect the underlying importance of place and locality in the production and delivery of services, and the role of globalization and cross-border business in the growth of the largest service firms.

The rest of the chapter is organized into a number of sections that address different dimensions of service firm organization in general. Examples are drawn from a range of service industries (mainly advanced business services) to develop a more detailed overview

of contemporary service business organizations. This begins in the next section with a discussion of work that has examined the new and developing geographies of service business organization, paying attention to the role of places and localities in shaping how service firms operate. A key issue is the role played by cities in organizing service business, manifest in the agglomeration and localization processes at play in urban economies. The third section then examines debates about complex divisions between concentrations of different service firms and industries in different cities and regions. It also examines how an urban locational hierarchy has emerged in the case of many KIBS industries, and how that exists at both the national and international scale. It is argued that understanding the nature of urban centres and their positionality in hierarchical relations is key to understanding the contemporary geographical organization of service business. The fourth section then turns to the level of the firm, examining both the organizational form and corporate geographies of service firms. The ways in which contemporary service firms are grappling with the complexity of cross-border business activity are considered, and a range of firm-level organizational and operational responses in different service industries are shown to exist. Of particular interest is how work practices around knowledge management, information technology and employee mobility are producing complex transformations in the way service business is organized. Finally, the chapter ends by identifying a number of important future challenges that service firms face in organizing their activities in the coming decades.

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<a>EVOLVING GEOGRAPHIES OF SERVICE FIRM LOCATION

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The breadth of the concept of a ‘service industry’ is matched by the great variety of ways in which services businesses are organized. If the broadest of service industry definitions are

taken, sectors including retail, hospitality, transport and other consumer services can be included. This presents a concomitant diversity of both organizational forms and business organizational models. However, in this chapter, and in the context of this *Handbook*, the focus will be on knowledge-intensive business services, that in large measure correspond to ‘producer services’ provided to other firms (Daniels 1993). The organization of service business in this respect has long been shaped by issues of agglomeration, and the key role that cities as locations play for service business firms. Over recent decades, there has thus been a restructuring and reconfiguration of the geographical organization of service firms at a range of scales from the local to the global, and the significance of urban networks has evolved in new ways. We now consider what can be argued to be three of the major characteristics to service business organization in locational terms in the twenty-first century.

First is the contemporary nature of urban agglomeration and localization factors in service business activity in the global economy (O’Farrell and Hitchens 1990; Sassen 2006). At their simplest, theories of agglomeration identify the savings made in relation to the cost of key infrastructures (public transport, information communication technology) when firms co-locate. However, in relation to knowledge-intensive services, co-location benefits refer, in particular, to the need to be close to major clients. This factor distinguishes business services from many of the manufacturing corporations studied and used to develop theory in the 1960s and 1970s (see Bryson et al. 2004). Historically, KIBS have been associated with urban centres and especially within central business districts. Such forces of agglomeration and localization were well understood historically, but what was less anticipated is how new transport and information technologies (and wider ‘economic globalization’) have, counter intuitively, largely exacerbated this agglomeration of service firms rather than leading to dispersal. Advanced industrial economies have thus seen an increasing concentration of service business in urban centres. In the UK, for example, Wood (2006) reports that 83 per

cent of UK employment in knowledge-intensive producer services is located in four cities: London (38 per cent), Manchester (16 per cent), Birmingham (13 per cent) and Leeds (16 per cent), and similar patterns are evident in other European economies (see, for example, Hermelin 2009).

The explanation lies in the strength of the reliance by much service business activity on reputation, client referral networks and geographical proximity with clients (Bryson et al. 2004; Jones 2007; Faulconbridge 2008). One of the defining features of KIBS firms is that their services take the form of advice designed to meet the very specific needs of these clients. For example, referring to research on management consultancy and law firms, Empson (2001) and Empson and Chapman (2006) contend that KIBS advice is hard to assess not only because client firms lack the in-house expertise to complete the task devolved to the chosen business service, but also because they also lack the expertise to evaluate the work of the KIBS firm employed. Moreover, it is suggested that the services provided by one KIBS firm cannot be compared with services provided by other firms because of their contingent, unique and one-off nature. As a result, meetings are the most important moments of work in business service firms (Jones 2007; Jones and Search 2009). At the beginning of KIBS projects, meetings with clients enable their needs to be understood and a trusting relationship to be developed between the client and the service firm providing advice. Occasional meetings throughout the life of a project are then used to deliver advice to clients, to maintain clear communication and to reinforce the trusting relationship between the parties. As such, face-to-face meetings overcome some of the difficulties associated with the intangibility of the work undertaken by KIBS. Clear communication and trust help mitigate a client's inability to evaluate the advice provided by professional service firms (Daniels 1993; Keeble and Nachum 2002). Consequently, locating in a city provides a major competitive advantage for producer service firms because a large number of potential clients are co-present and

easily accessible when meetings are needed. Combined with the valuable travel time saved when clients are located in the same city, the ability to arrange meetings at short notice is said to be behind the way cities have become *the* sites of producer service work (Daniels 1993).

The strength of agglomeration factors in service business organization can be illustrated further using an industry example. Research by Glückler (2007) into the management consultancy industry in Germany suggests that firms benefit from reputation enhancement when located in major business cities and are more successful at attracting new clients because of the importance of reputation in their decision-making about which consultancy firm to use (see also Glückler and Armbruster 2003). Glückler (2007) also shows that presence in key business cities allows firms to benefit from business acquired by intra-city referrals – when one client in the city recommends the firm to another potential client. Work in other advanced economies reinforces this (cf. Wood 2002). In the UK, for example, Keeble and Nachum (2002) also studied locational strategies for management consultancy, finding that firms in London benefit from easy access to a large pool of clients who can easily be served thanks to the benefits of co-location – that is, the ease of meeting clients face to face. Furthermore, this study also showed that London-based firms find it easier to innovate and develop novel lines of consultancy advice because of the benefits of informal interactions with fellow consultants based in the city. This gives London firms an advantage over firms based in other smaller UK cities where there are fewer management consultancy firms (cf. Wood 2002; [see also Faulconbridge & Jones 2011](#)).

The latter issue brings us to the second and related characteristic of service business location: the role of cities as the localizing sites where service firms cluster because of industry-specific knowledge, learning and innovation. Economic geographical theorization has suggested that for KIBS firms, two city-based knowledge- and innovation-related advantages are especially important. First, the concept of ‘buzz’ captures the way in which

social interactions lead to access to market-related knowledge. Morgan (2004) and Storper and Venables (2004) outline how such 'buzz' relies on face-to-face encounters, trusting and reciprocal relationships and the development of city-specific industrial languages and codes which together lead to knowledge spillovers. In particular it has been shown that interactions between KIBS workers in restaurants and bars (Thrift 1994), at professional associations (Faulconbridge 2007b) or at formal training and professional development events (Hall and Appleyard 2009) lead to insights being gained into new business opportunities as a result of idle chat and gossip. Grabher (2002) suggests that this buzz forms a constant background 'noise' about new business opportunities. Such noise is also said to help clients to assess the work of producer service firms. When clients of multiple service firms interact in such social, professional or educational spaces they share their experiences of working with different firms. The gossip and rumour this generates lead to the construction of a positive reputation for those firms judged by clients to provide the best services and damage the reputation of poor performers.

The third aspect to service business location we can identify concerns labour. Again, both agglomeration and localization factors are important. The presence of multiple producer service firms in a city is also associated with the development of a pool of expert labour which acts as another factor reinforcing service firm location strategies (Daniels and Bryson 2005). For example, both Grabher (2001) and Ekinsmyth (2002) study London and show that when rival business service firms in industries such as advertising or digital marketing are located in the same city, intra-city labour churn provides a competitive advantage as talented individuals can be more easily encouraged to move between firms (see Saxenian (1994) on the analogous process in engineering communities). In addition Grabher (2001) and Ekinsmyth (2002) suggest that the increasing reliance on project teams made up of individuals drawn from within but also outside of organizations' boundaries has rendered

cities important strategic sites of work for some business services. In KIBS firms where each project requires a very different type of expertise, project teams often include freelancers brought in because of their particular specialism. Cities act in this sense as vortices, sucking in freelance workers who can be drawn on as and when needed to provide expertise that is crucial for a project's success, hence further making metropolitan locational strategies advantageous. At one level being in a major business city means, therefore, that the process of searching for an individual with the required expertise is simplified.

It is therefore argued that cities provide an 'ecology' of labour for many kinds of service firms (Vinodrai 2006). This ecology comprises individual workers, labour market intermediaries and multiple co-located firms from the same industry (*ibid.*). The ecology generates career paths for a cohort of freelance and temporary workers that are built on multiple short-term contracts, something advantageous for firms seeking to 'hire in' knowledgeable individuals as and when needed. In addition, and in a different but related way, city-based pools of freelance labour are valuable for business service firms because they can develop repeat relationships with a subset of individuals leading to the development of an institutional structure for project work (Sydow and Staber 2002). This institutional structure develops over time as a result of repeat project working and leads to norms (trust, reciprocity, etc.) being shared both by firms hiring freelancers and by freelancers themselves, something which helps smooth the project management process when individuals are 'hired in'.

Overall, therefore, cities and certain key areas within cities are crucial in service business organization. However, it is worth adding that some recent evidence from European economies suggests that the manifestation of locations and agglomeration forces within some advanced economies is not as simple as geographical concentration of service business in urban cores. Improved information and communications technology (ICT) and transportation systems suggest that business service firms in a range of industries (e.g. architects, design

consultancy, digital media) can locate outside central business districts (CBDs) in the wider sphere of influence of key city regions. Where transportation connections enable easy face-to-face contact when necessary, small business service firms in Western Europe can locate in a wider city region, as shown to be the case for UK cities (London, Birmingham, Manchester) and to some extent in other European economies (France, Germany, Denmark and Sweden) (Glückler 2006; Hermelin and Rusten 2007; Hermelin 2009). Yet these decentralization trends in firm location reflect a more diffuse agglomeration in city regions, rather than a reversal or 'end of geography'-style (cf. O'Brien 1992) dispersal of service business activity. To a large extent, they reflect both changes in the possibilities presented to service firms of all sizes in terms of location decision by ICT, but also the greater complexity of underlying trends in the geographies of service business organization that exist beneath the scale of aggregate firm location data and theories. In order to better understand these complexities we turn in the next section to the nature of service business organization within firms themselves.

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<a>ORGANIZATIONAL DIVERSIFICATION: GLOBALIZATION, SUBSIDIARIES AND NEW MODELS OF CORPORATE FORM

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Having considered the geographical dimensions to service business organization in terms of the role of cities and regions, we now need to examine the transformations and contemporary nature of service business organization at the level of the firms themselves. The fact that many service firms cluster and co-locate in cities represents only one dimension of the organization of service business, and it is important to understand how service firms in the twenty-first century are structured at the corporate level. There are a number of important trends that are common to many service industries but perhaps the most important overall trend is the context of widening and deepening economic globalization that has been a key

process in recent decades. A wide body of interdisciplinary research has indicated that, in common with other industries, business service industries have become increasingly globalized (Jones 2003). In general terms, since the late 1980s firms in investment banking, management consultancy, insurance, legal services, advertising and accountancy have begun to move out of national to transnational markets and operations (Enderwick 1989; Aharoni 1993; Daniels 1993; Lewis 1999). This process has been a progressive and uneven one, varying between both different business service industries and national economies (Bryson et al. 2004; Jones 2007; Pain 2008). We can use this as a lens to understand the diversification that has taken place in organizational form amongst service firms (although of course many service businesses also continue to serve regional and national markets as well). In that respect, the major drivers behind this shift which is impacting on the organization of service business are at least threefold.

First, as transnational corporations (TNCs) have developed in all industry sectors, business activity has escaped national economies and moved into new markets at the global scale (Dicken 2011). TNCs represent the major clients (i.e. the market) for business services that have followed their market and transnationalized their activity (Bryson et al. 2004). In this respect, business service firms have been required to respond to the needs of their clients for global-scale services (Majkgard and Sharma 1998; Nachum 1999; Strom and Mattsson 2005, 2006). Second, within many business service sectors such as investment banking, the globalization of markets has also been accompanied by the development of larger transnational service firms and a concomitant greater degree of corporate globality (Jones 2003; Faulconbridge and Muzio 2009). Organic growth and acquisition of overseas firms has produced a growing number of business service firms that are themselves transnational. These service TNCs are at the forefront of the production, distribution and consumption of services in the global economy (Bryson et al. 2004). Clearly this is entwined in a complex

way with the globalization of markets for these services (Roberts 1998; Warf 2001; Miozzo and Miles 2002). Third, many business service firms are embedded in economic globalization as key actors who have developed informational products whose purpose is to facilitate the globalization of markets and firms in other sectors (Roberts 2006). This driver varies between different industries but investment banking, law and management/strategy consultancy are certainly heavily involved in providing advisory services to client firms on how to transnationalize their operations and do business in markets at the global scale. Thus an important component of much professional business service advice in a range of sub-sectors is concerned with helping other firms develop, for example, effective *corporate globality* (in spheres such as operations, ICT, human resources and information management) as they transnationalize. This is essential for them to compete effectively at the global scale (cf. Jones 2005).

As the management literature has explored in some depth, the internationalization of some service businesses can be traced back many decades, and even in a nascent form prior to the second world war (cf. Kipping 1999). However, the development of this service business globalization in recent decades has become a much more extensive and complex process as the global population of business service firms has increased, and they have established operations in an increasing number of countries (Daniels 1993; Warf 2001; Jones 2003; Bryson et al. 2004). The rest of this section thus considers the geographical factors behind the globalization of service business activity, the emergence of globalized corporate organizational structures and the way in which the key significance of social networks to service business activity has shaped transnationalization.

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Geographical Factors in the Globalization of Service Business Activity

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Geographers have argued that existing theories of firm globalization developed from

manufacturing industries are inadequate for understanding business service globalization over the past 50 years or so (Boddewyn et al. 1986; Daniels 1993; Bagchi-Sen and Sen 1997; Jones 2003; Faulconbridge et al. 2008). Longer-standing theories of firm globalization based around the three dominant elements of firm-specific and ownership advantages, location-specific advantages and internalization advantages (known as the OLI model) (cf. Dunning and Norman 1987) are also problematic when applied to business service firms (Bagchi-Sen and Sen 1997). The key issue that renders such theories inappropriate concerns the intangibility, perishability, inseparability and heterogeneity of KIBS service industries. For many service businesses, product specialization and diversification (i.e. economies of scope) are more important as growth strategies for firms than economies of scale because of the immobility of many services (cf. Enderwick 1989). Thus the literature suggests that the bespoke knowledge-intensive nature of business service ‘products’ (Boddewyn et al. 1986; Wood 2002; Bryson et al. 2004) – in combination with the heavy reliance on face-to-face interaction in the work process (Jones 2003, 2007) – means that conventional models of firm globalization provide only very limited insight into the nature of (business) service firm globalization. Rather, we can identify at least two distinctive dimensions to the way in which service businesses have globalized.

First, a number of *impediments* to the globalization of business services have been identified that contrast with those identified in work on the internationalization of firms in manufacturing sectors (cf. Dicken 2011). At one level, economic geographers have shown how the regional context in which KIBS service firms operate shapes the capacities and opportunities they have for globalization. For example, O’ Farrell et al. (1998) show how the ability of business service firms within different regional economies to globalize is strongly influenced by their embeddedness in a number of regionally constituted factors, including the contact networks firms can access *within* a given region that then lead to contacts amongst

potential clients in overseas markets. This kind of evidence suggests that KIBS firms globalize their businesses via social contact networks that develop in regions or places where they already operate. It is not a question of starting up a new international operation from 'cold' but pursuing potential new business overseas by exploiting existing social contact networks in a current operational geography (Jones 2003; Glückler 2006; Faulconbridge 2008).

At another level, Bagchi-Sen and Sen (1997) suggest significant hurdles to globalization exist for service firms in relation to the nature of their products and regulatory issues. They argue that, in terms of products, 'the heterogeneity of the services rendered' by KIBS firms represents a barrier because products that are suited to one national economy are not necessarily suited in another (ibid.: 1153) and 'the international diversity in the rules for granting licenses to practice' (ibid.: 1153) for many service businesses means that firms often face a different set of rules with which they have to comply in each new national context. Similarly, in many countries the fact that service firms are partnerships (e.g. legal services, consultancy) is often a disincentive to invest as there is a potential for 'unlimited liability of the partners'. Other regulatory barriers also include 'restrictions induced by government or professional associations on the use of a firm's name', 'restrictions on trans-border data flow' (which inhibit much of the normal work process of consultancy), 'government regulations limiting the tradability or access to markets' and of course 'differences in professional standards' in different countries (ibid.: 1153). Bagchi-Sen and Sen (1997) thus suggest that theories of business service globalization should focus on what they categorize as 'the conditioning, motivating and controlling factors' which influence KIBS firms in overcoming these impediments (ibid.: 1153). The implication is that theories of service firm globalization need to examine in depth what has enabled some firms to successfully enter overseas markets and why they have adopted such a strategy when others have either failed or not sought to do

so. Kipping (1999), for example, provides a contribution in this respect in examining how reputation and the development of host country client networks have been essential to the success of US management consultancy firms' operations in Western Europe.

Second, the globalization of many KIBS industries including advertising, marketing and accountancy and management consultancy firms has been driven by client-following activities that led firms to globalize their activities to meet the demands of clients (Bagchi-Sen and Sen 1997; Jones 2003, 2005; Faulconbridge et al. 2008; Faulconbridge and Jones 2011). This has combined with growing pressure from domestic competition, and domestic market saturation in advanced industrial economies has also led KIBS firms to seek to globalize (Bagchi-Sen and Sen 1997). However, this may be more relevant to some business service industries than others. For example, such arguments are more applicable to accountancy, which offers more standardized products (cf. Beaverstock 1996) than the bespoke informational services provided by firms in management or specialist strategy consultancies that have seen markets in developed economies such as the UK grow over recent years (Jones 2003).

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The Emergence of Globalized Business Service Firms

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At the level of the firm, service business is being (often radically) reorganized in order to compete in international markets. There are many industry-specific dimensions to the emergence of globalized service firms which are beyond the scope of the discussion here. However, the way in which business service firms have restructured their organizational form as they seek to globalize has a number of commonalities across industries. At the firm level, KIBS firms have generally internationalized by opening operations in new foreign markets or developing strategic collaboration, rather than via the acquisition of foreign firms (O'Farrell

and Wood 1998, 1999; Wood 2002). This has produced an ongoing need to develop more effective international corporate forms. It is certainly evident that KIBS firms in several sectors (investment banking, consultancy, legal services, advertising) have experimented with developing a *transnational* or *global* model, rather than the multinational model identified amongst manufacturing and extractive firms since the 1970s (cf. Cohen et al. 1979; Dunning 1993). A key argument developed here is that differences in organizational architecture notwithstanding, KIBS firms have sought in various ways to shift towards organizational forms that represent an extension and a deepening of organizational restructuring towards 'corporate globality' (Jones 2005). During the 1990s a number of the larger firms underwent dramatic internal restructuring (Jones 2003), moving away from a geographical to a product-based divisional structure. In essence, this represents a move away from US, UK or Asian divisions of firms towards global-scale functional divisions based around communities of practice and knowledge/expertise (e.g. a global-scale retail consultancy or utilities practice community).

Thus the evolving organizational form of transnational KIBS firms is markedly different from that typical for many large manufacturing firms (Johanson and Vahlne 1990; Andersen 1993). These discussions also relate to wider debates in economic geography about the role of mobility and technology and the way in which globalization is transforming the nature of work. This literature demonstrates that, despite the globalization of management consultancy firms over the last two decades, face-to-face interaction and co-presence remain a central and crucial element of working practices and ultimately of firm success. New information technologies have played an important role in facilitating and enabling the globalization of management consultancy firms, but the nature of their work process has meant that virtual interactions, for example via videoconferencing, have not become a substitute for most forms of face-to-face interaction (Jones 2003, 2005; see also Sturdy et al.

2006). The key impact of this has been to significantly increase the levels of business travel by employees, with substantial impacts on the working practices of firms as they globalize (see Faulconbridge et al. 2009). It is to these issues that the final part of this chapter on the organization of service business will now turn. However, before doing so we need to consider a further element to the complexity of service business organizations that links service industry evolution in localities and regions to wider globalization. In the final part of this section we consider the role of transnational partnerships and subsidiaries which also involve not just larger transnational service firms but also service small and medium-sized enterprises (SMEs) in the global economy.

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Local Partnerships, ‘Born-Globals’ and New Service Firm Organizational Forms

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Until recent decades, the economic geographical, regional studies and management literature had established an empirically founded understanding of service industry organization within regional economies that identified large firms as the primary basis for business internationalization. As discussed earlier in this chapter, service business internationalization theories were concerned with the capacity of large firms – usually located in globalizing cities – to internationalize their operations. We have also considered the development of (large firm) corporate globality (i.e. a large firm opening up offices and business in multiple countries). However, the transnationalization of service business in a range of KIBS industries (as with manufacturing or other industries) increasingly cannot be restricted to this large firm transnational model. We need to consider three important complexities to the development of internationalized service businesses that are also relevant to SMEs.

The first aspect to transnational service business organization is the role played by transnational partnerships between firms and the acquisition of subsidiaries beyond their

home country market. Within KIBS industries this is much less developed than, for example, in manufacturing or electronics (Dicken 2011). However, some recent research suggests that KIBS service firms are increasingly making use of overseas partnerships to expand their businesses into international markets (Jones and Strom 2012). This takes a variety of forms but can be a good mechanism to enable KIBS industries to overcome regulatory, institutional or cultural barriers to entry in foreign markets (ibid.). Both accountancy and management consultancy firms operating in emerging markets in Asia or Latin America have, for example, sought entry by forming strategic alliances and partnerships in this way. Such an approach has the advantage of reducing the risk of starting business by utilizing local expertise to navigate through what are often complex and unfamiliar commercial and regulatory environments. Given the embodied nature and crucial significance of trust and face-to-face communication, having local employees working for a partner firm or subsidiary provides an important basis for gaining entry into markets (Jones 2007).

Second, another relatively novel dimension to contemporary service business globalization is the emergence of ‘born global’ SMEs in a range of KIBS industries. These firms are small start-up firms that almost immediately do business in international rather than regional or national markets (cf. Madsen and Servais 1997; Bell et al. 2001), often being set up with the specific intent to serve global markets from their inception. These kinds of SME have been typically identified in technological, pharmaceutical and software industries (Jones 2009). However, it is clear from a limited but growing body of research that born-global firms are increasingly evident in a range of professional service industries. Within advanced industrial economies, born-global KIBS SMEs are increasingly evident in a number of industries, although the specific nature of these firms and the markets in which they operate vary considerably. A good example is the globalization of architectural firms, which have a longer history of international market activity than most (cf. McNeill 2008). In architecture, a

number of the larger European and North American firms have established themselves in international markets following commissions for iconic buildings planet-wide that display a distinctive firm brand (e.g. The Foster Partnership). Within this industry, however, the specific project-based nature of architecture combined with the confines of small specialist markets for specific kinds of buildings and structures has also enabled small born-global architectural practices to compete internationally. Many of these have emerged as spin-offs from the larger global architecture firms as key employees use their experience and international client contact base to set up on their own (McNeill 2008).

Third and finally, it is worth pointing to the complex interplay of business internationalization, firm-level organizational form, and information and communications technological and locational decisions in service business organization. Beyond the partnership, subsidiary and born-global manifestations of service business internationalization discussed above, it is clear, if currently under-researched in the social scientific literature, that the interaction of the four above factors is producing a complex spatial and organizational reconfiguration of service business in advanced economies (and also to some extent in emerging economies). As discussed earlier in the chapter, conventional understandings of city-regions in advanced economies have been questioned by recent empirical research identifying new spatial configurations of KIBS service firm populations that have spread from urban CBDs facilitated by transformations and improvements in ICT and transportation links. However, at the international scale, there is limited evidence of similar but equally complex new configurations of service business organization within some KIBS industries, networks of small service firms operating across a range of European countries in KIBS sectors which make use of a flexible array of semi freelance contract employees who are also highly mobile (Bryson and Rusten 2005). The organization of certain KIBS niche industry segments is again driven by client-led needs and competitiveness, but

also indicates the potential for further highly complex organizational and spatial forms to develop in the future. This issue also leads us to an important final aspect of how contemporary service business organization continues to be transformed: the nature of work practices themselves.

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<a>SERVICE BUSINESS WORK IN THE GLOBAL ECONOMY

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The transformation of service business organization at the urban, regional and firm levels discussed so far has also been bound up in transformation of the organization of service work at the level of individual employees. Again, there is enormous diversity dependent on the industry and job description of individuals within service firms, but it is possible to identify a number of more general trends that are common across many service businesses. These are caught up of course in the processes of industry globalization, product innovation and technological change in service business that have taken place in recent decades and which are discussed elsewhere in this book. Three trends are especially pertinent to the overview of contemporary service business organization provided by this chapter.

The first is the impact that the centrality of face-to-face interaction – already referred to above – has on the organization of business service working practices. Whilst the aggregate significance of interpersonal interaction in driving agglomeration in firm location has been discussed already, there are other important transformations occurring in the context of the ongoing globalization of business service markets and firms. At the level of the individual employee, much KIBS work involves the cultivation and maintenance of social contact networks (Glückler and Hammer 2011). This applies at both the inter- and intra-firm level and across all scales from the urban regional to global. In terms of service business working practices, professional employees are heavily caught up in interpersonal

relationships that are important not just in delivering the bespoke business products to clients through face-to-face interaction, but also in the wider practices surrounding client acquisition and retention (Jones 2005; Faulconbridge 2007a). Gaining and retaining business for many KIBS is therefore caught up in a deeply social set of factors (although that is not to say that others such as price are unimportant), and the internationalization of the market for their services and many firms' operations has and continues to produce significant change to how KIBS work is organized.

The evidence for this in the literature is substantial. For example, in management consultancy both Jones (2003) and (Glückler 2006) suggest that with regard to international market entry, firms rely heavily on social networks in order to globalize their operations; developing social contact networks amongst 'local elites' within new foreign markets is essential to market entry. The geography of globalizing KIBS firms is to a considerable extent shaped by the capacity of key senior managers to gain business through personal contact with key employees in client firms in different countries or regions. This is an intrinsically embodied and largely face-to-face aspect of KIBS working practices in the global economy. Jones (2003) suggests that these networks of contacts that senior employees (as 'client carriers') maintain, develop and perpetuate in the global context represent the major deciding element in whether these business service firms win or lose contracts in markets outside their home country. Meanwhile Hall et al. (2009) similarly suggest, using a study of the executive search industry, that 'iconic individuals' can be important in facilitating the globalization of an industry because of the way, through their contacts, they legitimate the activity of new arrivals in a country. Furthermore, this applies not only for large service firms but also for SMEs (Jones 2011). There is thus growing evidence that KIBS firms of all sizes in many industries are increasingly focused on developing local contact networks as they seek to cultivate clients in foreign markets.

Second, and following on, are the internal strategies that business service firms have developed in recent decades as service businesses have internationalized their operations. As KIBS firms increasingly employ workers in disparate locations around the globe, there is a significant need for internal *global socialization* which involves strategies designed to facilitate co-presence between employees of the firm located in different offices around the globe. Strategies include global training programmes, conferences and practice community meetings (see Jones (2003) and Faulconbridge (2008) for a similar example of such strategies in law firms). The maintenance of internal contact networks in business service firms is a functional necessity for these businesses in order to cross-refer business, develop global project teams, maintain organizational coherence in terms of service standards and ensure service product consistency.

Third, and caught up in all the above, are transformations in employee mobility and the use of ICT. The internationalization of KIBS markets and firms has necessitated a wider shift to ‘global working’ practices beyond simple conceptions of increased international business travel (Wood 2002; Jones 2003, 2005). This shift has several elements, including a substantial increase in the numbers of foreign ‘expatriate’ workers moving between different offices in developing global networks (Beaverstock 2006; Hall et al. 2009); the development of more extensive secondment schemes where more employees increasingly spend periods of months or years abroad; and a widening of the recruitment base of employees, where the employee profile of the company reflects rising percentages of employees from a larger number of different countries. Thus there has been a blurring and dilution of the ‘home economy’ component of the workforce within management consultancy firms, along with a growing prevalence of business travel and numbers of employees living in countries other than their home state (Harvey et al. 1999; Jones 2003). More recent work has also identified the significance of ‘hybrid managers’ and key business service professionals in acting as

intercultural communicators through overseas secondments and mobility practices (Schlunze et al. 2012). The kinds of mobile working practices within KIBS firms in the global economy are thus becoming very complex with mixtures of short- and longer-term travel combined. Certain key employees within many KIBS industries have therefore become highly mobile, and for many business service professions overseas secondment and travel are increasingly the expectation and the norm in working life (Jones 2008). This of course presents some significant challenges around work–life balance for firms competing to hire and retain the kinds of highly skilled individuals who fill such roles.

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<a>CONCLUSION: RECONFIGURATION, DIVERSIFICATION AND RETRENCHMENT

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This chapter has provided an overview of how service businesses are organizing their activities in an increasingly (albeit unevenly) integrated global economy in the early twenty-first century. As discussed elsewhere in this book, the concept of the service firm or industry is enormously diverse. Thus the focus here has been on what are arguably the most significant service businesses to global economic development – knowledge-intensive business services. The approach has been to move down through a range of geographical scales from the urban/regional to the level of individual KIBS employees in order to explore the organizational processes that are shaping service business activity. Many of these are inherently geographical during an era in which the globalization of service business activity is one of the most visible forces affecting contemporary service industries.

What is hopefully evident from this analysis is that, whilst significant differences exist between service firms in different KIBS industries, a range of shared common trends are evident. Foremost is that KIBS firms have undergone, and are continuing to undergo, far-

reaching transformations that reflect dramatic changes in the environment in which these service industries exist compared with 30 or 40 years ago. KIBS industries have grown and diversified whilst simultaneously becoming clustered in specific places that are increasingly interlinked across a global city network. At all scales from the local to the global, the physical location of these activities has become more complex, with new ICT reconfiguring the relationship in some cases between office locations, back office or support functions, employee locations and employee mobility. Central to this has been a dilution and reconfiguration of regional service economies identified in the later decades of the last century, as service markets and firms have internationalized. However, the transformative processes discussed in this chapter are far from concluded, not least because the economic downturn that has gripped the global economy since 2007 has produced a new wave of service business reorganization. In some sectors there has been retrenchment and withdrawal from selected areas of activity, and others such as financial services are reconfiguring in the wake of new regulation or legislative intervention at the national and supranational level.

Yet in terms of the underlying trends that have been discussed, I would end by arguing that whilst, in the wake of the recent economic downturn, new patterns of service business organization are likely to develop in the coming decade, there is no evidence that internationalization is losing momentum or even reversing. Indeed in the coming decade, the challenge for understanding service business organization will be increasingly focused upon the interaction between KIBS firms and industries that have evolved in (Western) advanced industrial economies and which are encountering and seeking to enter new emerging economies in Asia, Latin America and Eastern Europe that are themselves beginning to spawn home-grown service firms. Whilst not diminishing the significance of the factors leading to service firm agglomeration and the need for interpersonal embodied work in KIBS industries, the development of emerging markets for KIBS services is likely to underpin

further significant change in the ways in which existing established firms in advanced economies organize their operations.

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