BUSINESS SERVICE FIRMS, SERVICE SPACE AND THE MANAGEMENT OF CHANGE

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Abstract

The growth of business service firms represents the latest stage in a continuing twentieth century process of technological and organisational restructuring of production and labour skills. It is associated with the rising information intensiveness of production and the development of an economy of signs. Business service activities located in service spaces drive innovations both in production technology and in management systems. The copresence of business service firms with their clients as well as other business service firms shapes the possibilities of trust between them. A detailed case study of the way in which large client firms utilise the services of independent business service companies is provided. This is followed by an examination of the relationship between small firms and business service expertise. A dual information economy may be developing in which large firms are able to search for specialist business service expertise irrespective of its location, while SMEs are tied into local providers of more generalist expertise.

Keywords: Business services, service space, copresence, embedded knowledge, management consultancy, consultant-client relationship, untraded interdependencies.

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Introduction

The role of service functions in the advanced economies has grown dramatically in recent decades. In Britain employment in services rose from 61.5% of the total work-force in 1981 to 72.1% in 1994. In some interpretations, this has been seen as a challenge to the prime position of manufacturing as a source of innovation and economic growth, with the resultant 'post-industrial society' characterised by the dominance of service employment and output (Bell, 1974). Against this, however, the fastest growth in services during the 1980s and 1990s took place in 'business services' such as management consultancy, computer services, and technical and financial services (Bryson et.al. 1996b). To the extent that these activities are inextricably linked to if not dependent on manufacturing and other production sectors, the growth of business services thus reflects not the decline of industry, but the growing complexity of production functions and organisations. It represents an extension of the division of labour within the wider production system. Investigating the role and growth of business service enterprises is thus arguably of central importance for understanding contemporary economic change in the advanced capitalist economies.

This paper relates the growth of business service firms to the part they play in wider changes in business organisation, and especially in satisfying the needs of their clients. Its purpose is to place detailed empirical research into the context of theoretical debates over business service activity, and the development of service spaces (Allen & Pryke, 1994). The analysis draws on material from three related research projects. First is an investigation into the growth of small management consultancy and market research firms in the United Kingdom, hereafter referred to as the *Business Service Survey*

(BSS) (Bryson et al., 1996b). This research was based on detailed interviews with 120 small independently owned and managed business service companies (see Bryson et.al. 1993 for the methodology). This research project provided an insight into the role and functioning of small business service firms. It revealed nothing, however, about the ways in which such companies were used by client companies. The second project was an exploration into the reasons why large client companies choose to employ the services of independent business service professionals, hereafter referred to as the *Client Survey* (CS) (Wood et al., 1994). A postal survey of 123 large UK-based firms (Table 1a) was undertaken in 1993 and 1994, followed by 40 in-depth interviews. The sample was broadly representative of the target population, seeking a balance between manufacturing and service-based firms (Table 1b), and between those in the 'south' and 'north' of England (Table 1c). Thirdly, *on-going* research is investigating the ways in which small and medium-sized enterprises (SMEs) utilise expertise and information available from either private sector business service firms or from state agencies. The SME project has just started, and one purpose of this paper is to develop thinking about the ways in which both complex (large) and simple (SMEs) organisations acquire and utilise external expertise (Bryson, Churchward and Daniels, 1996a & b).

This paper is divided into three sections. The first section develops a understanding of the relationship between service space and copresent interaction. It also develops an enterprise approach to understanding the growth of business service firms and the utilisation of their expertise by clients. The second section presents some of the findings of the client survey. This explores the ways in which external expertise is incorporated into the production process of both manufacturing and service companies. Finally, section three examines SMEs in relationship to the business service debate suggesting that a dual information economy may be developing in the United Kingdom.

An Enterprise Approach to the Growth of Business Service Firms

The evolution of capitalism during the nineteenth century in Europe and America is associated with the gradual transformation of artisan production and small family firms into large-scale business enterprises (Church, 1993). This transition is associated with a growth in management complexity and the development of specialist management expertise. In the evolving family firms of the nineteenth century ownership and management control was predominantly restricted to family members. Thus, management tasks in the firm of Cadbury Brothers Ltd were divided between George and Richard Cadbury; George was responsible for manufacturing, buying and advertising, and Richard for accounts, sales and correspondence (Williams, 1931, 68). Management activity at this time consisted of a combination of production and support activities. These support activities are, in fact, internalised business service activities wrapped around the production process. The current debate into the role of information in the economy (Hepworth, 1989), with claims that an information economy now exists, is misplaced, as information and its interpretation has always being an important prerequisite for competitive success (Arrighi, 1994, 39).

The growing size, complexity and geographical spread of business enterprises necessitated the introduction of new and increasingly sophisticated forms of management practice (Clegg, et.al, 1986). A new class of salaried executives emerged organised into hierarchies of upper, middle and lower management. Such hierarchies were frequently subdivided into management functions, for example, marketing, personnel and strategy. The development of multinational companies is associated with the transfer of ownership away from individuals to financial institutions. To support corporate expansion capital was increasingly raised on the stock markets. Institutional investors, such as insurance companies and pension funds, held an increasing proportion of corporate stock resulting in the development of new structures of corporate control. The divorce of ownership and control is thus an important feature of the emergence of the large corporation (Bearle and Means, 1932). This development is associated with greater corporate accountability, and the development of modern accountancy as a device to monitor the financial performance and hence profitability of the capitalist enterprise (Roslender, 1992).

From the late 1970s the structure of management regulation and employment altered as a reaction to macro-forces external to business organisations. As companies were forced to compete in the global economy production was rationalised and employees were transformed into human resources to be used for the benefits of the organisation. These changes are associated with the transformation of the hierarchical organisation into the heterachical organisation (Hedlund and Rolander, 1990). This involves the geographical diffusion of core strategic activities and co-ordinating roles, and the replacement of hierarchial control with a wide range of governance modes. Such organisations internalise some of their activities, engage in joint ventures to develop and manufacture specific products, as well as subcontracting elements of the production process and support activities. The ideal heterarchical organisation is one which performs each function in the most effective and competitive manner. Heterachy involves a reliance on out-sourcing and the use of external business service suppliers. In-house support functions are down-sized, and replaced by formal or informal relationships with independent external suppliers. A just-in-time approach to specialist knowledge and expertise is introduced which may lead to a growing dependency on external business service suppliers.

Heterarchy, however, does not imply rigidity as enterprises will internalise previously externalised functions on the basis of cost or production efficiency. The company becomes more flexible and cost efficient, resulting in pressures on employees to increase productivity. Management layers are removed resulting in individual managers having greater responsibilities and higher workloads. Ideas and innovations flow not from the top of the hierarchy, but horizontally within the organisation, as well as from either formal or informal relationships with external agents.

A career in a heterarchical organisation is no longer a career for life (Kanter, 1993). Increasingly employees have to rely on their own abilities, reputations and professional accreditation to structure their experience of work in a number of different corporate environments. Professional careers replace careers structured around a single company's promotional hierarchy. Individual employees have to develop reputational capital rather than company specific organisational capital. All of these alterations result in the establishment of a different set of relationships between the organisation and its external environment, and between the organisation and its employees. Thus, a study by Wiersema (1995) found that unexpected executive turnover can significantly alter the perspective of a management team and is an important mechanism by which firms adapt to the changing competitive environment. A new chief executive or manager may identify a problem, and hire a consultant they had previously employed whilst working for another organisation. Hofer suggests that a necessary 'precondition for almost all successful [company] turnarounds is the replacement of current top management' (Hofer, 1980: 25-26, also see Kesner and Dalton, 1994).

Since the late 1970s a reorganisation of the production process has occurred as a consequence of international competition, technological change, recessionary forces and changes in the requirements of organisations. These pressures created a demand for specialist business service firms who could satisfy the short or long term needs of both small and large enterprises. Large companies must decide whether to develop and retain such expertise in-house, or identify suitable external information providers. In this case transaction cost theory is frequently applied, in spite of criticisms (Hepworth, 1989; Jacquemin, 1987), as a framework in which to explain the development of flexible production systems. The organisation of the firm resolves itself into a conflict between the costs of providing a service within the firm (hierarchies) and the cost of purchasing the service from an independent supplier (markets) (Dahlman, 1979; O'Farrell et.al, 1992). The relationship is, however, not as simple as this as the decision to internalise or externalise a function will be determined by the culture or the organisation, the internal politics and the nature of the expertise required.

The growth of business service firms represents the latest stage in a continuing twentieth century process of technological and organisational restructuring of production and labour skills. This has required increasing managerial inputs, the expansion of the management division of labour, and the development of specialised management expertise in areas such as marketing, market research and personnel. These new management areas acquired their own terminologies and methodologies and have gradually transformed themselves into recognised professions (Perkins, 1989). The history of capitalist production is thus associated with a constant division and specialisation of activity and the growth of a professional middle class. It is this class that is at the centre of the modern service economy (Urry, 1986; Savage et.al, 1988).

Embedded Knowledge and the Question of Brokerage

The out-sourcing of management support activities, and the increasingly precarious nature of management employment has important implications for organisational behaviour besides a reduction in overheads. Internalised management functions, for example marketing, construct knowledge which is embedded within the organisation's cultural and social system. Location within a particular cultural and social structure constrains individuals as it prevents the possibility of certain types of action. It is also enabling as it orders the individual's understanding of the world and of themselves, by constructing their identities, goals and aspirations, and 'by rendering certain issues significant or salient and others not' (Emirbayer and Goodwin, 1994). Such knowledge engenders a considerable degree of trust as it creates individual reputations and identities which are known throughout the organisation. The transfer of such expertise to independent business service companies enhances organisational flexibility, but it also allows knowledge and expertise created within a different environment to be transferred between organisations. Such knowledge may alter the organisation, or be rejected by it. However, the embeddedness of knowledge in social and cultural formations implies that all successful relationships between individual actors are determined by 'concrete personal relations and structures (or 'networks') of such relations [which are involved] in generating trust and discouraging malfeasance' (Granovetter, 1985). This results in the formation of what Eccles (1981) has termed the 'quasifirm' arrangement of extensive and long-term relationships between organisations and their subcontractors. These long-term relationships of trust between actors occupying positions in different organisations, for example the relationship between a consultancy company and its clients, is a organisational form which exists somewhere between a pure market relationship and the vertically integrated company. The argument is that to understand the business service relationship involves the recognition that all business transactions are determined by and influenced by networks of personal relationships. These relationships range from close ties of friendship (the old boy network) through direct experience of the way in which a particular organisation conducts its business activities (Bryson et. al, 1993).

The externalisation of support services, and the increased requirement by organisations for external expertise involves the evolution of organisational 'brokers' (or gatekeepers) (Gould and Fernandez, 1989; Knoke and Pappi, 1991). Brokers occupy 'a structural position that links pairs of otherwise unconnected actors'

(Fernandez and Gould, 1994). The notion of brokerage has implications for the position of actors within a network for the development of transactions between unrelated organisations. Access and control of resources are central to the nature of power in any relationship. Burt (1977) assumes 'that actors are purposive in that they use their control of resources in order to improve their individual well-being'. Influence is thus defined as the possession or control of scarce resources. Control and access to resources, especially information, are thus important dimensions of a broker's power. In Granovetter's terms brokers operate as a crucial bridge between different parts of the social system (Granovetter, 1973, 1982). Granovetter's work on the strength of weak-ties shows that individuals possess a number of close friends or acquaintances, and are thus embedded in a closely knit social structure. Any two friends will, however, possess different friends and acquaintances and therefore, friendship represents a crucial bridge between two different groups of individuals. Such weak-ties between different parts of the social system provide individuals with access to information and expertise which is unavailable from their own friends or from within the organisation in which they work. Thus, 'it follows that individuals with few weak-ties will be deprived of information from distant parts of the social system and will be confined to the provincial news and views of their close friends' (Granovetter, 1982, 106). The implications for this perspective on organisational behaviour is that it transfers some power from the organisation to individuals or groups of individuals responsible for the identification of external business service companies. Individual brokers will occupy a particular position in the information network, and thus will tend to implicitly or explicitly favour particular types of business service organisation, and or individual professionals. It also has important implications for the success of independent business service professionals as this will largely be determined by the number of weak-ties they possess. Research needs to focus on how such brokers mediate between client companies and external providers of business service firms.

Service Space and Copresent Interaction

The nature of commodity production altered with the crisis experienced by Fordist factory production systems (Bryson et.al, 1996). To encourage and maintain consumption of mass produced commodities the service element of commodities has increased. Associated with this trend is a 'rising information intensiveness of production in all industries, including manufacturing' (Hepworth, 1989, 23). Thus, to Lash and Urry (1994) 'what is increasingly produced are not material objects, but signs'. Such signs are either informational or aesthetic. The design process and business service activities such as advertising and market research now comprise a much higher proportion of the value of a finished commodity. Market research, advertising and design now drive the innovation process in both manufacturing and business and financial services. A good example of this is the development of Jaguar car's XK8 sportscar. Research undertaken by Jaguar identified that up to 25% of all XK8s would be purchased by women, and that in the important USA market this would rise to over 33% of consumers. Jaguar ensured that the design team for this new car consisted of both male and female designers and that the car's ergonomics would produce a comfortable drive for both males and females. Thus, door clearances have been designed so that a women wearing a skirt or a dress can get in and out without difficulties, and door pulls, release catches and switches were designed so that they can be used without breaking nails (Freeman, 1996). These alterations to the design of the car, and the targeting of women purchasers by female Jaguar marketing and promotion executives may appear to be minor changes, but they represent a significant transformation in the way in which car companies are constructing the symbolic and design content of their products. Rather than engineers designing cars, designers, market researchers and marketing experts are instructing engineers in what they should design.

These business service driven innovations are the result of in-house business service support functions, or the deployment of external independent business service companies. A high proportion of external business service firms are located in London and the South East, with their initial establishment and continued operational success dependent on interaction with the London information nexus. For example, in 1993 33% of management consultancy firms were located in London, and 61% in the whole of the South East (Keeble et.al, 1994). There are two dimensions of this interaction. First, both small and large business service firms regularly use external associates to undertake specialist components of a larger project. Such networking enables business service companies to offer a wide range of services without employing a substantial full-time professional staff. London based business services firms use associates much more frequently than companies based elsewhere in the United Kingdom (Bryson et. al, 1993). This may be explained by the operation of copresent interaction, as well as by the availability of expertise. Secondly, the intangible nature of the products supplied by business service firms makes it difficult to acquire clients simply by advertisements. This is a direct result of clients' lack of information about the services and quality of any business service firm. This explains the significance of repeat business for business services firms as it reflects a client's satisfaction with an earlier assignment, with a 'successful' project leading to a further assignment. It also demonstrates the embeddedness of the client business service relationship. The BSS study found that on average repeat business provided just under two-thirds of firm assignments by turnover. Repeat business was also much more important for London based business service companies (Wood, et.al, 1993).

Such findings suggest that the spatial fragmentation of business organisations, with externalised business service support functions increasingly located in global or information rich cities, is producing a distinctive service space (Allen and Pryke, 1994). Service space generates new knowledge and expertise which can be consumed by any client, no matter where they are located, as long as the client possesses the capability to identify, access and utilise such service expertise effectively. Such information rich environments also offer opportunities for individuals to create a reputation for a particular type of service expertise which may become of global significance.

Service spaces consist of information-intensive companies functioning as innovation, information and expertise transfer agents. Effectively they operate as pivotal information nodes in the global economic system. Information technology has loosened the relationship between certain types of activity and location leading to the dispersal of back-office functions to locations remote from centres of corporate control (Stanback, 1991). New technologies only loosens some of these locational relationships, agglomerations of information analysts are still required to interpret and control information (Sassen, 1994). According to Boden and Molotch (1994), the most effective way to interpret and implement new knowledge acquired from the use of new information technologies is by copresent interaction. Such interaction, however, is much more complex than just face-to-face interaction as it includes the advantages that may accrue to a company from a location surrounded by similar companies or business service firms. Untraded interdependencies may develop which produce innovations as a consequence of tacit knowledge and expertise transfer (Storper, 1995). Copresent interaction thus includes 'inadvertent' meetings that 'occur when people of the same ilk frequent the same spaces' (Boden & Molotch, 1994). It also is assisted by the location of the headquarters of professional organisations in global cities. The presence of these institutions offers possibilities for copresent interaction leading to the acquisition of new clients, the formation of new companies, and the development of new innovations, and of course for untraded interdependent interaction. Such interaction creates trust, and results in the transfer of embedded of knowledge (Granovetter, 1985). Even where geographical dispersion separates people who need to be constantly in touch, conferences and business meetings enable them to maintain an element of this interaction. The frequency of such conferences appears to have increased 'because specialists need to tell each other what they are doing' (Boden and Molatch, 1994, Rubalcaba-Bermejo and Cuadrado-Roura, 1995).

The copresence of business service firms with some of their clients 'shapes the possibilities of trust between them' (Friedland and Boden, 1994; Friedland and Palmer, 1994). It also determines the extent to which client firms develop strategies and structures to cope with market uncertainty (Beck, 1992). The employment by clients of business service experts is an attempt to remove uncertainty and reduce exposure to risk (Scott, 1988). It does this in two ways. First, by reducing employment overheads by only employing experts when they are required. Large companies are thus able to maintain their competitiveness because some information development costs are externalised to business service firms. They are also able to recruit 'temporary' employees who have been trained in different corporate environments and cultures. The possibility always exists for a client to 'head-hunt' a business service employee internalising their expertise. This has the advantage for the business service company as their 'inside' professional will generate new business, and continue to promote the reputation of the company.

Secondly, by acquiring access to a range and depth of expertise which cannot be created inside a company. Firms thus become dependent on knowledge and expertise which exists outside their borders. Firms have been transformed into 'extended' or flexible firms in which the boundaries between externalised and internalised management expertise has become increasingly blurred. Such external business service expertise acts to reinforce expertise available from interlinkages between corporations at Board level. Useem (1984) suggests that such board room interlinkages operate to gather information about corporate practices, regulatory and political changes, and macroeconomics expectations (Mizruchi, 1991; Scott, 1979). Explicit board room linkages, and implicit linkages as a result of using the same business service expertise, allow companies to exchange information, innovate and retain their competitive position. Such linkages allow the continual benchmarking of organisational performance and behaviour, as well as the transfer of information and expertise. They are also another form of untraded interdependency (Storper, 1995). Related to this argument is that active participation in the social networks that drives this form of interaction is essential for its existence. Long distance interaction will not work as the nature of the relationship will deteriorate over time, as well as over space (Nohria and Eccles, 1992).

Three dimensions of service space can be identified as innovation transfer nodes. First, the relationship between a client and business service firm depends on personal contact between two individuals. The movement of managers between client companies transfers both expertise as well as tacit knowledge (business service contacts). This is supported by the Client Survey which found that the main reason (31% of firms) for employing a particular consultancy company was previous experience (Table 7). The transfer of a manager from a company which regularly employs external business service firms will also transfer this style of management, and well as the information available from a particular subset of business service firms. It will also result in a different relationship between the organisation and service space.

Secondly, the transfer of information between client companies occurs when ideas generated internally are transferred to another company as a consequence of the employment of business service companies. This may result in continuous change and improvement in an industrial sector as all organisations will gradually obtain access to the same organisational and production innovations. For any one company to enhance its profitability will require alterations to business practices which are currently not accepted behaviour within that sector. Business service firms, by operating as innovation transfer agents, may be responsible for the dynamic nature of organisational structures and operational procedures. Change has become the norm, with this change been driven increasingly by independent business service enterprises.

Thirdly, the growing importance of multinational business service enterprises (Daniels, 1993), and the export behaviour of nationally based companies, has led to the transfer of innovations between countries. This has led to the development of weak-ties between individuals at a global level. The United Kingdom's business service companies have closely followed innovations developed in the USA, and transferred these to their UK clients. Recent examples of such transfers are the introduction of Business Process Reengineering into the UK from the USA, the introduction of the system of annual hours from Sweden (Lynch, 1985), and the transfer of management practices and procedures from the advanced economies into the restructuring economies of the former soviet union. The transfer of management practices between countries by business service professionals has its advantages as it can result in beneficial alterations to current business practices. It also, however, has its dangers as practices developed within one country may be inexpertly altered to fit another business culture (Gertler, 1995). Thus, some business service companies have sold business process reengineering as the latest management practice or fashion, to companies that did not require it.

Business Service Expertise and Client Interaction

To understand the growth and significance of business service activities in the advanced economies necessitates an analysis of the role business service activities play in changes in business organisations, and especially in satisfying the needs of clients. This section explores the results of the client survey by providing an analysis of the client business service relationship.

The client survey showed that 62% of companies routinely used consultants in the management of change, and 71% (87 companies) provided details of particular recent change programmes. Consultants frequently contributed to projects which clients regarded as of strategic importance. Such projects often concerned changes in management structure and process, organisational culture, and personnel capabilities. In 60% of cases changes in performance were also involved (Table 2). Changes in particular tasks and activities, including products and markets, image, and especially technology were less commonly described, reflecting the strategic focus of this enquiry (Wood et.al, 1994). Such changes are often implicated in the process of organisational change, and frequently require the use of outside expertise. Overall, consultants are also used more frequently by growing companies (Table 3). This is because growth produces a demand for temporary assistance to fill gaps in the availability of internal staff, or it may reflect differences in management practices between growing and declining companies. This relationship between turnover and use of consultancy needs to be investigated further.

The use of business service consultancies reflects various forms of relationship between internal and external managerial expertise. Four types of client-consultant relationship have been identified from this research. First, a relationship of 'substitution' of external expertise for a recognised internal inexperience or incapacity. This usually involved technical skills, for example market research, information technology applications, and occasionally financial and administrative systems. Substitution is also very common in the routine out-sourcing of logistics, training, catering and security services. Secondly, the 'addition' of consultant expertise and experience to well-established clients capabilities. Companies with good in-house expertise will engage consultants with similar expertise. This was the most common relationship identified from this study and was most frequent in the management of broad strategic and organisational change programmes. Consultants engaged for this type of relationship must be sensitive to the cultural, and political nature of the client's internal operating environment. Thirdly, 'augmentation' of client skills, within particular sectors. In this case consultants complement clients' in-house resource in particular areas, for example information technology and environmental policy. Fourthly, consultant employed as facilitator. This type of relationship is very different from the first three as it does not specifically involve knowledge transfer. Instead an ability to organise the client's own in-house resources is required. Such a role may be necessary as a consequence of an over-heated internal political debate, or a lack of management time. In one case consultants were employed to ensure that a client formulated change programme kept to its implementation time-table.

The first three types of exchange accord respectively with Tordoir's 'selling', 'sparring', and 'jobbing' relationships (Tordoir, 1993). They are not, however, discrete alternatives, nor do they determine the nature of the interaction process. First, they reflect both consultant and client contribution to managing different types of expertise. Any consultant, or client will combine different modes of engagement, even in the same project. A client may even employ three or four consultancy firms to provide different types of expertise for the same change programme. This, however, requires on the client's behalf an ability to divide the change process into clearly defined segments. The various kinds of client consultant interaction will have common operational elements. Both 'substitution' and 'addition' require in-house management time to manage the consultancy relationship. Facilitation, may be the most difficult form of interaction as it involves consultant identification of the client's political and cultural structures. During this process new methodologies, and management techniques may have to be learned by the organisation which were previously not recognised as an in-house deficiency. The process of exchange is dynamic, so that the different forms of relationship interact with each other. Thus, consultant expertise which is 'substituted' for an in-house deficiency may be most successful when such skills and expertise are also transferred into the internal labour market.

These four types of interaction depend on cultural and power relations. Success or failure will not be related to the quality of the expertise, but the way it is articulated by the consultants, and by the client. A project will fail, because insufficient in-house management time has been deployed to identify the dimensions of the problems, and the way in which expertise will be transferred during the relationship. The success of the relationship will be also strongly determined and influenced by the form and nature of the social interaction. This influences the way in which trust, mutual confidence, understanding, and expectations are constructed during the course of a consultancy project. Successful social interaction depends on the clear identification by the client of its requirement as well as a comprehensive understanding by the consultant of the client's needs. A successful consultancy project is thus one is which the consultant persuades the client that the finished project has met these requirements, and that the client's organisation appears to be more efficient or effective.

The postal questionnaire identified a number of reasons for why clients employed consultants (Table 4). Four primary reasons can be identified, but these are not mutually exclusive. First, the client required special knowledge and skills (58%) reflecting either an interaction of 'substitution' or 'addition'. Secondly, to obtain an impartial independent view point (41%). This reflects one of the most important reasons for using external expertise in that it enables in-house staff to distance themselves from a decision which may be perceived to be politically unacceptable by the organisation. It is a requirement by the regulators of the controlled industries (Water etc) that independent consultants are employed to substantiate in-house claims. This reason is also used by a client to acquire some of the credibility or prestige attached to some of the global consultancy companies, for example McKinsey, or Bain. Thirdly, consultants are employed because of their ability to provide temporary intensive help (38%), and also their ability to provide assistance for projects with short time scales, for example a take-over bid (15%). Fourthly, consultants are employed because the company has had a satisfactory experience of using consultants (12%). This explanation is related both to culture and experience. Clients can acquire a consultancy culture in which past experience indicates that external advice may be beneficial for the development of a rapid solution to a problem, or that working with individuals one-step removed from the organisation enables in-house staff to examine the companies internal dynamics from a fresh perspective.

Consultants were not employed because the management expertise already existed in-house (Table 5). Another reason for the exclusive use of an in-house resource was the understanding that successful change management could only be undertaken by individuals familiar with the company's practices, style and culture (16%). This may be related to experience of a unsuccessful consultancy project in which a consultant failed to read the in-house culture in the right way. Related to these reasons is the perceived requirement by a small number of companies for confidentiality (7%).

Overall the postal questionnaire identified a selective acceptance of the need to employ consultants. Such acceptance is conditional on the internal cultural and political environment of the organisation. The in-depth interviews revealed a learning process through which individual managers and companies must progress if they are to make effective use of consultancy interaction. During the early 1980s consultants were employed to provide a 'blue-print' for change, but were not involved with implementation. Such projects were ineffective as the reports were never implemented as their findings were never integrated with the cultural and power structure of the client organisation. During the 1980s, large companies have learnt by this mistake and the majority will now utilise their in-house resources before employing consultants, and ensure that consultant interaction is controlled by the client, rather than by the consultant.

Issues of corporate control, ownership of change and empowerment are all important aspects of a successful interaction with external expertise. This argument is based on the understanding that the only individuals with the power to transform an organisation are its staff, and that consultants are employed as an extension (addition) of the internal labour market. Effectively, this implies that a new management skill has been developed which is the ability to manage a relationship with an external information/expertise provider. Use of consultants may be periodic or a permanent feature of any one company's management style. But use, non-use and the nature of the interaction is dynamic, changing as the management structure alters. In most cases consultants were expected to work closely with the in-house staff (43%), or carry out specific elements of a larger project (32%) (Table 6). Sometimes they offered specialist technical advice (31%), including staff development and training (21%). In 26% of cases the consultant provided a 'blueprint for change', with client's expecting their in-house staff to implement the proposal. Such a strategy will work if the internal staff have been actively involved in the construction of the 'blueprint'.

Dynamic processes are at work in the way in which clients choose consultancy firms. This is related to the imperfect nature of the business service market, as well as to the personal basis of consultancy interaction. A strong relationship also exists between the use of consultants and the length of the change programme. Thus, 32 of the projects planned over more than one year used consultants, while only 6 did not. Longer projects most commonly involved changes in management structures and process, or operational changes, including the introduction of new technology, new tasks and activities, or improvements in performance (Wood et al., 1994). For such projects, the use of consultants was often based on previous experience of them, even through more time was available for the assessment of alternatives. This reflects the importance of trust and mutual understanding in the client consultancy relationship. It also is a measure of the client's perceived importance of the change. Important change programmes cannot be given to companies or individuals of which the client does not have previous experience.

Overall, the choice of consultants depended heavily on three related characteristics (Table 7). First, previous client experience of working with the consultancy. In most cases this will reflect experience of working with a particular consultant rather than a company. The establishment by a client of a working relationship with a particular consultant frequently leads to repeat business. In this case, enforced client consultancy copresence as a consequence of working on a project may engender trust and the formation of weak ties between individuals. These weak ties bind managers and consultants together, and result in the manager transferring tacit knowledge of specific consultants with them when they move within or between companies. The movement of managers between and within large companies thus alters that organisation's relationships with service spaces, the main locations for business service expertise. Secondly, the reputation and prestige of the company or the consultants. In many respects, the reputation of a business service professional is tied closely to the concept of trust. Trust is a form of capital investment which the individual makes in establishing a particular reputation. The client has to trust the professional's expertise, ability and interpretations of the benefits that may eventually accrue from a particular project. Trust is also private knowledge which is only available to a restricted group of individuals and is impossible to transfer completely between individuals, but is transferred with them.

Thirdly, the ability to work closely with the in-house staff. In the majority of case studies this was one of the most important factors in the choice of consultants, and usually depended on whether it was considered that the consultants would fit in with the culture of the client organisation. This is perceived by clients to be an important factor as a consultant that does not understand the company culture may produce recommendations which will be rejected by those in positions of power in the internal labour market. The location, or local availability, of consultants was only a minor influence on the choice of consultants. This suggests that large companies will search nationally and globally for the right type of expertise. However, search strategies appear to be restricted by the notions of copresence and embeddedness explored above. Search strategies are thus partially determined by the existence of previous personal contact between the client's management team and the consultant.

The important point that must be made is that good consultancy depends on the establishment of effective personal and social relations. It is thus dependent on the establishment of a relationship of trust between two individuals, operating within two different institutions, who have different motivations for engaging in the relationship. A successful project should improve the effectiveness of the client organisation, and the consultant should augment an existing reputation leading to new projects.

Business Services and Small and Medium-Sized Enterprises

The management of large companies consists of a complex interplay between complementary in-house and external expertise. This exchange of expertise appears to be increasingly important for successful survival and competitiveness. The growth of specialist business service firms has thus been based on a growing demand for specialist expertise by large client companies, and is a symptom of wider changes that have occurred in the organisation of production. Business service firms play an important role in the management of change by providing expertise which either existed previously inside organisations, or expertise which by its very nature can only be provided by an outside agency. In this case, an independent impartial viewpoint may be sought to resolve a management difficulty.

Most successful business service firms work in the main for large corporate clients, preferring to ignore the less profitable SME sector (Bryson et.al, 1994). Of the 2.5m firms operating in Britain, however, only 9,000 employ more than 200 people, with 96% having fewer than 20 staff. Between 1989 and 1991 firms with fewer than 20 employees created nearly half a million new jobs while the workforce of large firms declined. Together these small and medium-sized enterprises (SMEs) account for 50% of UK non-government employment (Department of Trade and Industry, 1995a).

In contrast to large companies SMEs have limited management resources and are thus more likely to require the services of outside experts, but are less likely to be able to afford them. Small businesses frequently excel in their core business areas, but have little management expertise, and are thus prone to failure as a result of poor financial planning, marketing, planning or personnel management (Bryson, Churchward and Daniels, 1996a).

Due to the cost of external expertise many SMEs rely on government funded or subsidised expertise, advice from banks and accountants and on informal advice obtained via friends and families (Department of Trade and Industry, 1995b, Marshall et al., 1993). In July 1992 the Department of Trade and Industry (DTI) announced that it was radically changing its system of support for SMEs. The new policy is designed to help SMEs compete in world markets by establishing a network of 'one stop shops for business', marketed under the name 'Business Link' (DTI, 1993). Business Link is an attempt to improve the acquisition of outside expertise by SMEs by simplifying the provision of advice at a local level. It provides SMEs with access to a range of services formerly available from a confusing welter of different agencies, for example Chambers of Commerce, Enterprise Agencies, Local Authorities, Training and Enterprise Councils, the DTI and the Department of Employment. A Business Link 'one stop shop' should provide SMEs with a single point of contact in an area to the services available from all independent local agencies. By the end of 1995, a network of 80 Business Link companies with 200 outlets was operating in England providing advice and services to SMEs. To be successful, however, SMEs must be persuaded that the Business Link chain has something to offer them in the form of improved productivity and competitiveness. In September 1995, telephone interviews with 825 SMEs identified that the main source of advice was their accountant (34%) followed by independent consultants (19%) (Department of Trade and Industry, 1995b). Only 2% of companies stated that they would approach a Business Link company for advice. This suggests that the DTIs Business Links initiative is failing to persuade it target audience of the value of its services.

SMEs lack the time and skilled specialist staff to develop in-house managerial skills, and for sorting the mass of publicly or privately available managerial, technical, or market information. Many managers or owners of SMEs lack management skills and are often unsure whether the problems they face can by solved, and where they can obtain information and critical expertise. This is one of the reasons why new SMEs are so vulnerable and prone to high failure rates (OECD,1993). The externalisation or transaction cost debate does not hold true for SMEs as in most cases they cannot afford to develop in-house expertise in all management areas. They thus have no choice but employ business service firms, obtain information from state agencies, or continue to survive without the information. Loss of potential opportunities or competitiveness due to inefficient organisational decision making procedures or lack of information represents an information opportunity cost. SMEs must reach an equilibrium between the amount of management time, or cost, of acquiring necessary information, and day-to-day management and business tasks. In comparison to large firms, it is likely that SMEs will be dependent on local suppliers of business services, and thus may not be able to obtain the best advice. A *dual information economy* may be developing within the UK with large firms searching for specialist business service expertise irrespective of its location, while SMEs are tied into local or regional providers of more generalist expertise. A postal survey of 147 small and medium-sized manufacturing and service firms revealed that 51% used local consultancy companies for business planning, and a further 21% used firms located in the surrounding region (eg North West) (Bryson, Churchward and Daniels, 1996b). The Business Link network will reinforce the dominance of local suppliers for SMEs, but might encourage the establishment of regional, and national networks of SMEs and business service advisers which would provide SMEs with access to specialist expertise. In addition, the regional diffusion of business service activities away from London and the South East is been encouraged by the devolution of management control by large organisations. Regional branches of service firms established to service the branch networks of global companies may diversify their activities and develop regional specialisms targeted at the wider regional market.

Comparatively little is known about the ways in which SMEs utilise information. Implicit in the development of the Business Link network is the assumption that successful SMEs know which external expertise they require to remain competitive and possess the management capabilities to control and manage the relationship with an external professional. Equally there is an assumption that business service suppliers must recognise their contribution to innovation adoption or management practice and they must themselves be innovative and constantly re-assessing their expertise and services. It also suggests that there is a need to consider less successful client firms and the policies needed to enhance their competitiveness by encouraging them to make more effective use of external expertise.

Conclusion

This paper has argued that the growth of business service firms represents the latest stage in a continuing process of technological and organisational restructuring of production and labour skills. It is associated with the rising information intensiveness of production and the development of an economy based around the symbolic content of commodities. Business service companies are increasingly driving innovations in the wider production system. They provide expertise which represents the accumulation of knowledge from experience of working for a variety of different companies and in different countries. The development of a sophisticated business service sector, with global companies located in service spaces and global cities, provides opportunities for the transfer of management ideas and innovations between individual companies as well as countries. Thus, management ideas developed in the USA and Japan are transferred into British companies by global consultancy companies.

The employment by clients of external business service expertise reduces employment overheads by allowing the client access to just-in-time knowledge without the cost rigidity of a full-time employee. Clients also obtain access to a range and depth of expertise which cannot be created and maintained inside their organisations. External business service firms operate in the same way as board room linkages in that they provide companies with access to information developed within different cultural and political environments. The internal political and cultural environment of the client organisation is both 'enabling' and 'constraining'. It provides employees with a particular language (Boden, (1994) and accepted work practices, but it can also prevent the internal development and introduction of certain ideas and innovations. External business service firms provide a mechanism for embedding new ideas into a client's internal political and cultural environment.

An important dimension of the business service client relationship rests on the establishment of 'weak-ties' between individuals employed by client companies and by business service professionals. The business service client relationship is dependent on the establishment of trust between individuals operating within different institutions. The work of Granovetter on 'weak-ties' provides one way of understanding the ways in which a client company identifies an external business service provider. The 'weak-tie' approach is useful as it highlights the social, cultural and political nature of the client business service relationship. It also draws attention to the role 'brokers' play in mediating between client companies and external providers of business service expertise. When change is driven within an organisation by external expertise, such expertise will be chosen in a particular way, relate to the organisation in a particular way, and have generated the knowledge it uses in a particular way. All of this implies that while business service employment may be a small proportion of total employment in the United Kingdom, their activities have important implications for the operation, structure and performance of both manufacturing and service firms, as well as the public sector.

TABLES

Table 1: Characteristics of Respondents to the Client Company Survey

a) Employment Size

	No.	%
<1500	20	16
1,501-3,000	23	19
3,001-6,000	18	15
6,001-18,000	31	25
>18,000	23	19
Missing data	9	7

b) Sector

Sector	No.	%
Utilities	15	12
Financial and Business Services	26	21
Manufacturing	40	33
Consumer Services	15	12
Primary, Construction and Transport	21	17
Other	6	5
Total	123	

c) Location of Headquarters

	No.	%
London	37	32
Rest of South East	25	22
Rest of England	43	37
Wales/Scotland./Ireland	10	9

Table 2: Main components of organisational change

Changes in	Components ranked as 'significant' or highly significant' No. of firms	%
Set up of organisation	47	41.6
Tasks & activities	49	43.4
Technology used	22	19.5
Management structures & processes	95	82.6
Organisational culture	93	80.2
People	82	71.9
Organisational performance	68	59.7
Image of the organisation	48	42.5

Table 3: Proportion of clients using external consultancy companies by change in turnover , 1990-1994

	No. using consultancy companies	No. not using consultancy companies	% using consultancy
>40% growth	9	3	75
21-40% growth	16	5	76
Up to 20% growth	19	11	63
0- 20% decline	11	13	46
>20% decline	3	3	50

Table 4: Reasons why client companies use external consultants

	No. of firms	%
Required special knowledge and skill	68	58.1
Required intensive help on a temporary basis	44	37.6
For an impartial, outside viewpoint	48	41.0
To confirm an internal management decision	11	9.4
Timescale did not allow for skills development internally	18	15.4
Good past experience of using consultants	14	12.0
Unable to recruit appropriate staff	2	1.7

Table 5: Reasons for not employing consultants

	No. of firms	%
Rapid response required	6	5.2
Appropriate management expertise available in-house	30	26.1
Need for familiarity with company practices, style, culture	18	15.7
Confidentiality/Security reasons	8	7.0
Higher cost of external consultants	6	5.2
Poor past experience of using consultants	5	4.3

Table 6: Use made by clients of consultants

	No. of firms	%
Provided the 'blueprint for change'	30	25.9
Carried out specific sections or elements of the change project	37	31.9
Involve directly with the implementation of change	17	14.7
Worked in partnership with internal staff (including secondment)	50	43.1
Provided specialist, technical advice	36	31.0
Provided specialist human resource management advice	11	9.5
Provided specialist market research advice	9	7.8
Trainer/Educator role	24	20.7

Table 7: Reasons given by clients for employing a particular consultancy company

	No.	%
Previous experience	45	31
Recommendation	14	10
Reputation/Prestige	32	22
Location/local availability	3	2
Offered specialist expertise	24	16
Ability to work closely with own staff	26	18
Offered more competitive rates	2	1

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