

Chapter 7

Knowledge Intensive Business Services and Regional Policy

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ABSTRACT

The economic importance of the Knowledge Intensive Business Services (KIBS) sector is increasing as its direct share of production grows, and as it increasingly provides knowledge inputs to firms in other sectors within more open innovation strategies. This chapter considers the implications for regional policy. It starts by discussing the nature of KIBS and their role in innovation. It then examines the changing scale of KIBS and the extent to which they are regionally concentrated. Key messages from neoclassical growth theory are then set out on the processes through which KIBS can be expected to contribute to regional economic growth, including discussion of potential cumulative causation processes at regional level. The implications of the theory are drawn out in terms of the types of market failures that policy should seek to address and how it may do so. The question is also posed of whether this is largely a field for regional policy or for national innovation policy. The chapter concludes by identifying some important questions for further research.

INTRODUCTION

The knowledge intensive business services (KIBS) sector is taking on increasing importance as the structure of economic activity in advanced economies shifts towards service industries and the knowledge economy. But despite these trends, innovation policies and regional policies have remained fundamentally designed for traditional manufacturing, in part because our understanding

of the role of services in innovation and regional growth has not kept up with the growing importance of the sector (Abreu, Grinevich, Kitson & Savona, 2008; Gallouj & Savona, 2009; Stoneman, 2009).

This chapter focuses on the regional policy issues raised by the growth of KIBS. It argues that a number of market failure arguments can be found in neoclassical growth theory for intervening nationally to support the contribution of KIBS to

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innovation and economic growth. However, the case for regional policy intervention is less clear. On the one hand, the growth of KIBS may have important consequences for regional disparities if KIBS tend to concentrate in space and if, through their knowledge interactions, they tend to improve the innovation and competitiveness of other firms in their host regions to a greater extent than those in more distant locations. Regional policy could have a role to play in these circumstances on grounds of spatial equity. Essentially, subsidies for KIBS growth in less favoured regions could be a component of broader regional development subsidies aimed at reducing inequality. On the other hand, a case for regional policy intervention on the grounds of economic efficiency would depend on spatial market failure, and the arguments and evidence for its existence are not strong. Without such market failure, there could be important efficiency costs to any regional policy intervention targeting KIBS, particularly in the presence of cumulative causation, although a policy to increase the spatial reach of knowledge spillovers from KIBS could benefit both national efficiency and spatial equity. This chapter explores these issues by characterising the KIBS sector and its recent evolution, drawing out implications from neoclassical growth models on how KIBS can be expected to contribute to economic growth processes, and considering how innovation policy and regional policy might appropriately intervene in these circumstances.

BACKGROUND

The term KIBS refers to firms supplying certain types of specialised knowledge-intensive services that other firms use in their business processes. KIBS suppliers have been defined as ‘private companies or organisations who rely heavily on professional knowledge and skills, that is knowledge or expertise related to a specific (technical) discipline or (technical) functional domain to

supply intermediate products and services that are knowledge based’ (Den Hertog, 2000: 505). Müller & Doloreux (2007) focus attention on three core sectors: computer and related activities, research and development (R&D) and other business services (legal, accounting, market research, business consultancy, architectural and engineering activities, technical testing and analysis and advertising). KIBS are frequently divided into technical KIBS (t-KIBS) such as information technology, engineering and R&D consultancy, and professional KIBS (p-KIBS) such as business and management services, legal and accounting activities and marketing (Müller & Doloreux, 2009; Miles, 1995).

In addition to the sheer scale of their direct employment levels, one of the important characteristics of KIBS is that they are often highly innovative in their own right (Miles, 1995). They tend to innovate more frequently than other service firms. For example, Corrocher, Cusmano & Morrison (2009) found that three-quarters of KIBS firms in Lombardy were heavily involved in innovation. But innovation in KIBS this is not generally based on internal R&D activities as in the manufacturing firm, but rather is strongly associated with organisational change, incremental improvements made by highly-qualified employees and intense collaboration with local customers and suppliers (Müller & Doloreux, 2009; Tether & Hipp, 2002). This type of innovation may be expected to result in relatively well-paid direct jobs and good prospects for further job growth in the regions hosting KIBS firms.

A second important characteristic of KIBS is that they often act as an agent of innovation for client firms in other sectors. They can be seen as propelling innovation across the economy, by applying generic knowledge to the specific problems of their clients and acting as facilitators, carriers and sources of innovation (Den Hertog, 2000; Müller & Doloreux, 2009). This is not to say that KIBS are always used by client firms for innovation purposes. Many professional KIBS suppliers

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