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**European Urban Development and Knowledge-
Intensive Business Services:
Too Many Unanswered Questions?**

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European urban development and Knowledge-intensive business services: Too many unanswered questions?

Abstract. The possible development of institutional arrangements in the English Core Cities to encourage the adaptive, service-based nexus of functions needed for their future business competitiveness raises many political, administrative and economic management problems. This paper explores two of these. First, the scale of the political and administrative transformation required, arising from the entrenched influence of the current economic development framework, dominated by central government policies and London's importance to the national economy. If such a transformation could be achieved, recent Core City studies have almost universally looked to the knowledge-intensive business services (KIBS) as providing the key to future economic growth. The second question therefore is how well we understand how KIBS might lead the required revival. Current levels of Core City KIBS contribute only about half the employment share found in London. Proposals to build on their assumed 'potential', in common with KIBS studies generally, show little detailed recognition of the diverse nature of KIBS activities, and how they may develop in future. A series of critical questions are raised about our detailed knowledge of KIBS functioning in the Core Cities.

Keywords: English core cities, knowledge-intensive business services, regional economic development, London

1. Economic policy implementation, the Core Cities and the regional service nexus

In an earlier paper, I reported on an analysis of recent trends in knowledge-intensive activities (including the business and creative services, innovative manufacturing and higher education) in the English Core Cities¹. It was concluded that their potential for knowledge-based innovation and growth was not being fully exploited (Wood 2004a). As is common across Europe, 'knowledge economy' policies to support UK urban and regional competitiveness have been focused on support for the invention and adoption of new manufacturing technologies. I argued that the cities instead need economic development strategies that can respond much more broadly to the growing national economic dominance of the whole *nexus of corporate, SME, public sector and knowledge intensive business services* based in London and the South East. This now primarily drives regional inequality in Britain. If gaining the benefits of technological innovation is a significant component of regional competitiveness, this depends on the qualities of wider commercial knowledge exchange. The Core Cities therefore need to promote institutional and networking structures, including public sector intervention where needed, that can respond to the realities of this situation. These structures should also draw on the complementary strengths of surrounding regions, including their successful manufacturing activities, and also foster collaboration between Core Cities to counter the dominance of London. Rather than '*regional innovation policies*', the focus should be on '*regional adaptability policies*', targeted at their whole knowledge base, promoting multiple forms of regional investment and growth (Wood 2005).

The consultancy report for which this work was originally produced has now been published (Simmie et al. 2004). In fact, a rush of studies and policy statements has emerged on the Core Cities (e.g. Parkinson et al. 2004, <http://www.corecities.com/coreDEV/about.html>). There were also significant political developments in 2004, including rejection in a referendum in North East England of a proposed elected regional assembly, partly because of its weak powers in relation to national government. This failure seems to have stimulated Government interest in devolving economic strategies to the established administrations of the major cities. Their powers, however, are commonly recognized to be inadequate to this task. For example, in England local government controls only 25% of public expenditure in its area, compared with 35% in Germany, and around 45% in the US. The Core Cities studies

¹/ Birmingham, Bristol, Liverpool, Manchester, Sheffield, Leeds, Newcastle, Nottingham.

have reiterated that the low capacity for strategic decision-making is, '...one of the most significant distinguishing features between high performing continental cities and the English Core Cities' (Simmie et al. 2004: 76).

The development of institutional arrangements in the Core Cities to support their future business competitiveness raises many political, administrative and economic management problems. Few have been directly addressed, although further studies have been commissioned². This paper summarises the nature of only two of these problems. The *first* is the scale and persistence of the political/administrative domination of England (and Wales) by London and the South East. We shall see that this has a double effect, through the remote manner in which English urban and regional economic policies are administered, and in consolidating the focus of much innovative public investment into the Greater South East (GSE: London, South East, and East regions). This situation is, in turn, a key to understanding the *second* problem; the economic challenges faced by the Core Cities. By almost common consent, these revolve around the promotion of knowledge-intensive activities, including business services (KIBS). They seem to have become the panacea for Core City economic revival. But could they perform this role, even if the historic political/administrative bias towards the GSE could be reduced? At present, KIBS contribute only half of the cities' share of employment compared with London, also significantly less than in their continental counterparts. In spite of twenty years of KIBS research, however, we know remarkably little about their detailed functioning, how they interrelated with other knowledge-intensive functions in specific regional contexts, and how they might develop in future.

1.1 Political/administrative challenges: Centralized control of the 'Levers of Competitiveness' in the Core Cities

Low levels of direct control of public finances by the Core Cities might not present insuperable barriers to effective urban economic strategies if central government policies were directed to supporting them. The current framework of responsibility is broadly indicated in Figure 1. This schematically summarises the agencies making and funding key public decisions affecting the six 'drivers of competitiveness' highlighted by the Core Cities studies (Simmie et al. 2004: 78): Innovation; Economic diversity; Strategic decision-making; Quality of life; Connectivity; and Skills. These are most influenced by central

²/ E.g.: Research has been commissioned by the Office of the Deputy Prime Minister to produce a 'State of the Cities Report' focusing especially on the impacts of public policies on their development prospects.

government departments: The Treasury (finance); Department of Trade and Industry (DTI: economic development); Department for Education and Science (DfES: education and skills training); the Office of the Deputy Prime Minister (ODPM: physical planning, transport); The Department of Culture, Media and Sport (DCMS); DWP (work and pensions); and DfT (transport). These arrangements inevitably encourage the disjointed and even contradictory local implementation of a complex array of national policies. This is even more damaging nowadays than in the past, since it undermines the consistent, coordination required to foster the cross-sectoral exchanges required at the city region level, in which KIBS and other critical knowledge-based activities are essentially engaged.

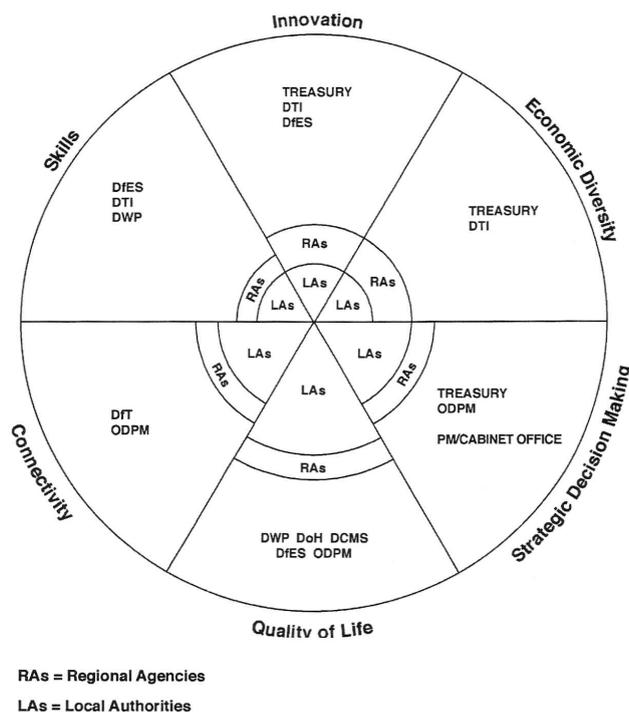
Figure 1 indicates that local authorities (LAs) themselves can generally exert only indirect influence, having most responsibility for 'quality of life', through their physical planning powers, and local transport services. Some responsibility for supporting national innovation, diversity and skills policies also rests with the relatively new regional agencies (RAs) in each of the six English administrative regions surrounding the Core Cities³. The most important of these are the Regional Development Agencies (RDAs), most established in 1999 mainly as a prelude to the now-defunct plans for regional devolution. They are also responsible for Business Link, the national advisory service for small firms. RDAs therefore oversee these national programmes for the Core Cities, but must also serve other regional priorities and pressures, including those of old industrial and mining areas, smaller towns and rural areas. It is not clear how effectively they can marry their £2bn per year spending to Core City initiatives.

As long as dependence on central government remains high (and there are no practical proposals to change this), the best that the cities can hope for is to develop a strong voice, collectively as well as individually, to ensure that national policies are more explicitly directed to urban economic development goals. The Government has declared its intention to do this, but the inertia of centralized resource allocation poses formidable barriers. For example, there have been moves to build regional priorities more explicitly into national policies. In practice, however, these have left the Core Cities in an ambiguous position. The policy performance indicators drawn up for each ministry and agency (so-called 'Public Service Agreement', PSA targets) now incorporate *regional targets* (PSA Target 2). Their purpose is to prevent further widening of, and even to narrow, the economic gap between the GSE and the other English regions by 2012. Policies therefore remain ministry-based,

³/. These are generally county-based, often including wide areas outside the core city regions: West Midlands (Birmingham), South West (Bristol), North West (Liverpool, Manchester), Yorkshire (Sheffield, Leeds), North East (Newcastle), East Midlands (Nottingham).

but their assumed effect on different regions has to be spelt out. An incidental consequence of this, now that the Treasury economists have begun to take note of regional matters, has been a belated scramble to improve the poor quality of regional economic data.

Figure 1: *Degrees of influence of governing levels on six drivers of urban competitiveness* (Simmie et al. 2004)



There are obviously potential conflicts with Core City priorities in setting regional-scale targets, but the PSA approach could enhance the focus on cities, especially now that competing elected regional institutions have been rejected. In practice, Core Cities may offer the best prospects of achieving regional targets, or at least the most rapid and visible results. These could arise from major city centre 'spectacle' projects, the search for mutually beneficial spin-offs between programmes, and the coordination and political drive offered by city administrations, especially in attracting inward investment and promoting new ventures. If a wider 'city region' approach is adopted, this might also satisfy the aspirations of other areas of RDA responsibility. The regional PSA targets at least offer Core Cities an opportunity to scrutinize and influence national resource allocation policies more closely, if still only indirectly. The question remains of how this might be directed to the promotion of KIBS and other knowledge-intensive developments.

The ingrained nature of UK regional economic divergence must nevertheless raise doubts about the possibility of overcoming it. These doubts are not simply technical, relating to

the scale and disposition of policies in relation to the extent of the problem: Can the preoccupation of *regional* policies with technological innovation and small enterprise (e.g. through PSA 2) be adapted to promote *urban* service-based 'regional adaptability'? There are also structural doubts, based on the persistence of historic processes supporting regional divergence, many of which have been strengthened in recent years (Allen 1992, Amin, Massey and Thrift 2003). As the evidence we now present may suggest, these processes also seem, if anything, to have been reinforced by public policies in recent years.

1.2 The UK political/administrative system: some economic consequences

The Core Cities initiative has at least raised political and administrative awareness of the magnitude of these processes, and allowed urban voices to be more clearly heard in central government. This may be bearing fruit, as for example in the emergence of the 'Northern Way' proposals for a coordinated strategy for economic development across northern England⁴. But there is scant evidence of any improvement in the local coordination of centrally allocated public resources. Three examples of recent policies affecting innovative regional developments hardly suggest a change in inherited spatial imperatives:

- (i) The national 'science base', is being promoted by the DTI, mainly to encourage technology transfer from universities to regional business. The PSA 2 targets place considerable emphasis on this at the regional scale, through a 'Higher Education Innovation Fund', as a 'third stream' of university funding⁵. Investment in university research itself, however, is determined quite separately, through the Higher Education Funding Council for England. Despite the quality of the Core Cities' universities, 30% of HEFCE funding at present goes to Greater London institutions, and a further 36% to those outside the Core Cities, dominated by Oxford and Cambridge, also in the GSE. (Table 1: Simmie et al. 2004: 58). The reasons for this pattern, of course, are historical, and based on an exhaustive formal university peer review system. But, as in so many areas of public spending, this 'demand-led' approach, reinforced in many cases by a regional bias in government defence and medical research spending, continues to direct many more public research resources to the GSE than elsewhere
- (ii) Another very active policy initiative since the early 1990s has been the 'Private Finance Initiative' (PFI) to attract private investment into public capital projects in

⁴ <http://www.thenorthernway.co.uk/>

⁵ See http://www.odpm.gov.uk/stellent/groups/odpm_about/documents/page/odpm_about_030104-03.hcsp

hospitals, schools, university buildings, prisons and transport. Over £24bn of contracts had been approved in the UK up to 2003, 60% of which were in London, even excluding a huge investment over fifteen years approved in London Transport (Table 2).

- (iii) Under the current 'Sustainable Communities Action Plan', a national strategy to accommodate future population growth in both regenerated areas and new urban growth, almost two thirds of its £8.5bn spending by 2005/06 will be directed to London and adjacent regions (Table 3). This is likely to have a major influence on patterns of future economic development, certainly overwhelming any special resources directed to the Core Cities for urban regeneration and poverty alleviation.
- (iv) Experimental summary data, based on national government accounts, have also recently become available for the first time on the regional and sub-regional allocation of all public funds. Table 4 summarizes the results for 1998 for the Core Cities and London, showing three measures of regional spending: gross government output (i.e. the level of government-financed activity), government gross fixed capital formation and the allocation of government investment grants (Simmie et al. 2004: 98, based on Hillis 2003). The data for Nottingham and Newcastle cover somewhat wider areas than the defined city regions, although they remain the dominant centres. The Bristol data are for a much wider area, and cannot be assumed to represent Bristol itself. It is evident, however, that London received well above national average government spending per head of population on all three counts, including almost double its 'share' of government investment grants (e.g. urban regeneration, housing, regional assistance, transport). No other city received more than the national average rate of grants. Only Newcastle exceeded the fixed capital formation rate for London, while Liverpool attracted higher than the national average. Both these cities also supported comparatively high levels of government activity (output), having particularly benefited from the decentralisation of routine government activities such as tax administration. Other major cities, however, such as Manchester, Birmingham and Leeds, as well as Sheffield and Nottingham, have attracted low levels of government output and investment, especially compared with London.

Table 1: HEFCE Research Funding, £ millions, 2003-4, and % of Total (Total HEFCE funding = £1,037.6)

	City region (total, £m)	%	Core city (total, £m)	%
Birmingham	39.2	3.8	38.6	3.7
Bristol	46.2	4.5	33.1	3.2
Leeds	59.9	5.8	36.0	3.5
Liverpool	25.6	2.5	25.6	2.5
Manchester	67.4	6.5	67.2	6.5
Newcastle	44.9	4.3	26.8	2.6
Nottingham	32.0	3.6	31.7	3.1
Sheffield	37.4	3.6	37.4	3.6
TOTAL	352.6	34.0	296.4	28.6
London	309.1	29.8	309.1	29.8
Rest of England	375.4	36.2	432.0	41.6

Table 2: Value of Private Finance Initiative Contracts committed to c. September 2003 (*In addition, three London Underground contracts awarded in 2002 over 15 years were worth more than £28bn)

Area	£ millions committed
UK Total	24,327*
London	3,893*
West Midlands (Birmingham)	441
Tyneside (Newcastle)	374
Greater Manchester	371
Nottingham region	346
West Yorkshire (Leeds)	309
Merseyside (Liverpool)	262
South Yorkshire (Sheffield)	129
Bristol region	94
Core city total	2,326

Table 3: *New resources included within the Sustainable Communities Action Plan, 03/04 to 05/06, £ millions (* Projects to tackle the most acute areas of low demand and abandonment in parts of the North and Midlands. Source: ODPM: Simmie et al. 2004: 93)*

London:	Housing	4,736
	'Thames Gateway' (Lower Thames development schemes)	446
	Total	5,182
Other regions:	Housing	2,658
	Market Renewal Pathfinders*	500
	Other growth areas	164
	Total	3,322

Table 4: *Sub-regional; Government Accounts, Experimental 1998, by areas approximating to Core City regions (except Bristol), £ Billions.*

Area	Government Gross Output		Government Gross fixed Capital formation		Government Investment Grants	
	Total	Per capita	Total	Per capita	Total	Per capita
UK Total	162.8	2,695	10.7	181	8.1	134
London	24.5	3,410	1.4	201	1.9	263
Birmingham	5.9	2,263	0.4	156	0.3	118
(Bristol)	7.5	3,479	0.4	192	0.2	77
Leeds	4.8	2,251	0.3	127	0.2	87
Liverpool	3.8	2,689	0.3	189	0.2	50
Manchester	5.9	2,293	0.4	162	0.3	16
Newcastle	3.8	2,633	0.3	234	0.2	47
Nottingham	4.1	2,051	0.3	149	0.2	89
Sheffield	2.9	2,262	0.2	168	0.2	120

Of course, the longstanding bias in national policies toward the GSE is partly demand-led, whether through the scale and excellence of its universities, or in its social problems and infrastructure needs. In London, the latter are arguably at least as great as other English cities. Its representatives, since 2000 including a vociferous elected London Mayor, as well as the economically influential City of London Corporation, argue that these allocations still

inadequately reflect what the city contributes to the national economy. A study commissioned for the Corporation, for example, estimates that government spending on London is only 33% of its share of national Gross Value Added, compared with a national figure of 45%, the lowest of any region (Gordon et al. 2004).

These contrasted perspectives on the regional balance of government spending define the politics of the current regional economic debate. While the vital national economic role of the capital is promoted from the new City Hall, across the Thames from Parliament, the Core Cities have traditionally had a more distant and diverse voice. This is being increasingly heard because their region's economic problems are seen as barriers to longer-term national competitiveness (e.g. Robert Huggins Associates 2005). One purpose of the Core Cities initiative has been to reconcile contrasted regional priorities by exploiting complementarity between London's global success and the economic roles of the other English cities. Their ability to develop knowledge-based competitiveness, often seen in terms of the growth of KIBS, thus now plays a central role in the national, as well as local economic success.

2. Economic challenges: The future role of KIBS in Core Cities revival

The emphasis in Core City studies on the importance of KIBS and other knowledge-based functions is certainly in line with much current thinking about their importance, not least in the geographical literature. But it is notable how little we actually know about their operations and impacts or, at least, how small is the evidence base for these major planning assumptions. To demonstrate this, the rest of this paper will consider how far the following questions might be answered in developing a strategy for the Core Cities:

1. Is it correct to assume that Core City KIBS employment growth will continue?

The ability of KIBS to support employment growth in the past has been widely acknowledged, from empirical evidence on both core and peripheral regions, and internationally, including northern and southern European countries (Rubalcaba-Bermejo 1999, Wood 2002). Employment is also showing a rapid 'catching-up' in the eastern European countries. In the UK, at least, we also have a good general understanding of the causes for this growth over the past 25 years: For most private firms, competitive pressures and the speed of technical and other change have increased the costs and risks of carrying out in-house specialist functions. This applies as much to information-based activities and routine support services as to material components and processing. Rather than 'owning' the required expertise by directly employing specialist staff, it is now often more attractive to

buy them in from, or collaborate with, specialist organisations which may maintain a high quality of expertise, building on their experience with many clients. Also, when effectively managed, the costs and quality of services acquired contractually from other firms is often easier to monitor, control, and vary as the need arises than the activities of employees. Many non-core functions have thus been externalised through various types of outsourcing, consultancy or sub-contracting arrangements. In the UK, the growth of KIBS has also been driven since the 1980s by public sector privatisation and restructuring, which increasingly dominate some areas of work. In 1998, for example, public sector consultancy fees were around £400 millions, but had risen to £1 billion by 2003. Estimates of public sector outsourcing (including everything from cleaning and catering to information technology and National Health Service operations) suggest that they were worth £32 billions in 2004, and could rise to around £50 bn by 2007 (Financial Times, 18 April, 2005, 2). Much recent KIBS growth has therefore been for the public sector, and includes employment displacement from public agencies. In the private sector, some national activities have recently shown signs of stagnating, including the more routine financial services and some traditional advisory forms of consultancy. Many larger KIBS firms have moved towards the long-term security of outsourcing contract work, often IT-based. Rapid KIBS growth over the past 25 years may therefore have marked a one-off organisational/structural change which is nearing its limits. Certainly, there have been shifts between different specialism, and not all KIBS are growing equally today. Some markets appear to have reached maturity or are even showing employment decline. This stage is also marked by a greater dependence on stable contract arrangements, including those with the public sector, rather than the innovative, short-term, consultancy work that launched many successful businesses in the past.

II. How 'knowledge-intensive', in relation to international competitive developments, are Core City KIBS, and what basis do the cities offer for developing these function further?

In the Core Cities debate, only limited curiosity has been displayed about the basis and quality of their KIBS employment. Some is truly 'knowledge-intensive', but much is actually routine; primarily consumer-oriented; ripe for automation or being moved offshore if wages get too high; and is likely to play little role in stimulating regional innovation or competitiveness. Table 5 summarises the aggregate pattern of recent Core City KIBS employment compared with London for five key KIBS sectors: Financial intermediation (i.e. NACE 65); Technical (i.e. 7420, architectural/engineering) services; Computer services (i.e.

7220, Software consultancy and supply); Insurance (6601/3, Life and non-life); and Business/management consultancy (7414).

At first sight, although there are significant variations between the cities (Wood 2004a, 2004b) Core City growth generally appears healthy. Financial intermediation, insurance and business consultancies, with legal activities (not shown), were the only NACE activities growing faster than Greater London at this time. Even a relatively cursory examination, however, shows that Core City financial services are dominated by routine consumer and business banking, insurance and related activity. The fact they grew between 1998-2002, during the acute recession that affected London, also seems to confirm that Core Cities are not generally engaged in the internationally-orientated wholesale functions dominated by the capital. (The same is likely to be true of their legal services). Even the growth of business consultancy is to a position where they still possess only about one quarter of London's employment share. Further, given their industrial inheritance, they might be expected to display growth in technical consultancy, including construction, architectural, engineering and computer systems and software. Unfortunately this is not reflected in the employment trends. Instead, London increased its domination. The detailed structure and employment performance of KIBS in this recent period therefore does not seem to indicate any special dynamism or potential for growth, certainly to a degree capable of challenging the dominance of London.

Table 5: *Core cities and central London: Share of employment in key KIBS sectors 2002, and change, 1998-2002*

	Financial intermediation	Technical services	Computer services	Insurance	Business consultancy
Core Cities	2.8%	1.2%	1.0%	2.0%	0.6%
	+16.5%	+1.6%	+33.1%	+14.4%	+33.2%
London	7.8%	1.9%	1.7%	1.5%	2.4%
	-0.2%	+20.7%	+59.6%	+1.5%	+26.8%

III. How beneficial to the wider Core City economies are locally-based KIBS?

Even where KIBS do possess the potential to enhance the knowledge base of a region, the form and magnitude of the processes by which they might do so remain unclear. These take two forms. The most immediate is the contribution of KIBS to the competitiveness of other local urban and regional activities, so that they do not need to draw excessively on such support from outside. These relationships and effects are hardly ever examined

comprehensively. And yet, like services in general, it should be axiomatic that KIBS regional value must depend essentially on how their benefits are felt by regional clients. All we have is a few studies demonstrating that the quality of local KIBS can support the innovativeness of manufacturing (e.g. MacPherson 1997, Muller and Zenker 2001).

This problem gains wider significance when linked to the second form of regional KIBS benefit: their role as part of the local export base. In general, the constitution, value and balance of KIBS trade between regions remains un-measured. Even internationally, where there is better monitoring of the financial services, the data for other KIBS are highly unsatisfactory. At best, for interregional trade, net flows are inferred from estimates based on location quotient or minimum requirements analysis, linked to national or aggregate regional trade data which, for knowledge exchange, are of dubious accuracy. It is also very difficult to obtain clear impressions of the comparative quality of local tradable KIBS.

For both the local and export contributions of KIBS, their assessment is part of the same problem. If the quality of local KIBS is high, this is most likely because of the quality of local demand. This is likely to support KIBS specialisation which, in turn, requires a wider than local market to grow and be successful. To complement this, a competitive local economy also requires access to other forms of quality KIBS from outside. If Core City KIBS remain comparatively unspecialised compared with those available from elsewhere, especially the GSE, they may support employment in the short-term, but are unlikely to develop significant net export markets or resist pressures of standardisation, rationalisation and employment stagnation or even decline. The competitive benefits of encouraging local KIBS can therefore only be gauged by assessing their contribution to the overall quality of local and outside business advice and practice. This is obviously a complex task, involving the interactive nexus of inter-regional and international expertise exchange. Assumptions about the benefits to the Core City economies of fostering locally-based KIBS can therefore be justified only in terms of their quality and non-local competitiveness, as well as the benefits they convey to successful local clients. This leads to a further question:

IV. How far do major businesses working in the Core Cities, including KIBS, engage local KIBS expertise?

Any appraisal of local KIBS quality might profitably begin with the national and international businesses and agencies operating within the same urban regional economy. These are not only in a position to assess, and influence, the quality of local KIBS compared with elsewhere, but also the relationships between the activities of local, regional, national and international KIBS. The internationalisation of KIBS is not simply a

matter of growing domination by global KIBS players. The limited evidence we have suggests that regional 'local expertise' is also highly valued, even by international firms, including major KIBS firms. Users also not only value the technical expertise and experience of KIBS, but also the responsiveness to client needs of the many specialist small-medium KIBS firms that continue to thrive at regional scales. Once more, the secret of success lies in the requirements of clients, in relation to both their in-house expertise and their experience and knowledge of KIBS quality elsewhere. Regional capacities to sustain and benefit from interactions with major regional clients vary widely, but would be vital to the success of any Core City KIBS-based development (Wood 2002).

V. If specialisation and tradability are the keys to KIBS success, how can a sufficient scale and quality of demand be encouraged to develop the full potential of the regional KIBS market?

All the evidence indicates that manufacturing, or even 'producer' relationships within the private sector, account for only a part of KIBS market growth. To illustrate this, Table 6 shows how varied are the market activities of the top five UK national management consultancy firms. Although their core markets remain in IT, financial and business management work, government, NHS and the privatised but government regulated utilities also rank highly. Specifically manufacturing-related expertise is only 9th in their market rankings.

Table 6: UK management consulting markets of top 5 firms in each activity (£ millions, 2003 financial year), ranked (Source: Management Consultancy: <http://www.managementconsultancy.co.uk/>)

1	All IT-related services, including consulting	1,650.5
2	Financial Services, (incl. systems and procurement)	1,018.0
3	Project management	466.8
4	Corporate strategy	432.0
5	Central/local government and NHS	418.0
6	BPR and change management	314.2
7	Communications	272.2
8	Utilities	262.8
9	Manufacturing	246.6

These data disguise a great diversity of market practices, augmented, of course, by those of many other major, and medium-small consultancies, and other forms of specialist activity, including technical consulting, market research and human resources consulting. In fact, the distinctions between these sectors have become increasingly arbitrary. Among the key market influences are:

- (i) Demand for KIBS is highly sensitive to the general commercial need to monitor and anticipate *consumer trends*, which now dominate so much regional and national growth. They thus incorporate market research, marketing, sales and advertising agencies, and consumer-related activities such as computer-based sales and distribution logistics.
- (ii) KIBS may also support *non-technological, 'creative' forms of innovative production*, often initially to serve largely local cultural, consumer, or entertainment demands. If these are successful, however, they may expand into much wider markets, requiring technological and business skills to complementary core creative functions. Beyers has demonstrated the interdependence of business and 'cultural' services in the USA, as has Alan Scott, in relation to the urban 'cultural economy', and Grabher, in his work on UK advertising (Beyers 2002, Scott 2000, Grabher 2001).
- (iii) In most European countries, as we have seen, *the public sector* is a major market for KIBS. Table 6 indicates how far the major companies rely on public sector markets.
- (iv) Manufacturing clients, often prioritized in regional discussions as a KIBS market, rank only 9th in the order of major UK management consultancy markets.

This range of involvement of KIBS in other activities, beyond conventional 'producer' services, is particularly significant at the urban regional scale where growth and competitive specialisation depend on serving a critical mass of knowledge-intensive requirements, as in successful core regions. KIBS qualities developed regionally may become the basis for national, and even international market development. Regional economic development strategies need therefore to broaden the basis of local KIBS demand. Rather than focusing only on KIBS relationships with regional manufacturing, or even regional export sectors, they need to draw on the diversity of regional private and public, manufacturing and service, and producer and consumer activities.

3. Conclusion

The Core Cities Study concluded that there is a strong case for reconsidering how cities and city regions in England are governed, and the power and autonomy they should exert. While

London's success over the past decade has made a major contribution to the national economy, it has also created medium to long-term problems by exacerbating the geographical divide between the capital and the rest of the country. Although tentative steps have been taken under the current administration to 'regionalize' economic policies more explicitly, these are very weak in the face of the inertia of established, London-based practice. There is also a paucity both of conceptual tools to guide urban-regional development in new, more devolved directions and relevant regional data that might enable understanding of the knowledge-based elements of the modern economy to be better understood.

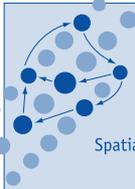
Even if an urban-centred regional devolution of economic powers in England did become possible, many questions would remain about how they could be most effectively exercised. High among the priorities would be development of KIBS which, in the UK, are almost universally regarded as providing the future basis for national and regional economic success. It seems that market forces are bound to increase inequality between the dominant GSE regions and the Core cities and regions without a significant change of economic direction. There are thus pressing practical reasons why we need to know more about the geographical dynamics of KIBS functions. The situations of the cities are also varied. That of Birmingham, Bristol and Nottingham, close to the GSE, may be contrasted with the more northern cities, of which Manchester and Leeds offer the major KIBS potential. Unfortunately, despite the volume and quality of work by geographers over the past twenty years, many key questions remain unanswered, and their message still needs to penetrate more fully into regional economic and political discourse in the UK.

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