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1) Introduction

The pre-eminence of knowledge-intensive business services (KIBS) to western economies is widely established in the economic geographical literature, and across other social science disciplines (Hertog 2000; Warf 2001; Bryson & Daniels 2015). Business service industries employ a growing proportion of the workforce, account for a growing proportion of GDP in advanced economies and, more significantly, for the highest-value added activities across global city networks and an increasingly knowledge-oriented global informational economy (Wood 2002; Hall *et al* 2009; Daniels *et al* 2012). They have been shown to be central to wealth generation, creativity and innovation as well as economic sustainability and resilience (Lundquist *et al*, 2008; Noland *et al*, 2012; Bryson and Daniels, 2015; Jones *et al*, 2016).

However, the development of KIBS within non-western economies has only been the subject of limited economic geographical attention (Ström 2005). The focus of research and theorisation with respect to the non-western economies that have matured over the last 50 years - such as Japan or the so-called newly-industrializing countries of the 1970s (NICs) which include South Korea, Malaysia or Singapore – has largely focused on manufacturing-led growth as a key explanation of economic success. Whilst the emergence of KIBS in these economies is of course acknowledged, understanding has been framed by a broad assumption that KIBS development has followed a similar path to western economies (Ström 2005). Research within the varieties of capitalism (VoC) approach has, for example, paid little attention to service industry development. Furthermore, where services are conceptualised in within emerging non-western economies service sector development is framed as being of ‘lower order’ (c.f. Lacity *et al*, 2010; Javalgi *et al*, 2011) with ‘high order’ KIBS development understood as either absent or lagging mature western economies.

Yet the reality of a rapidly changing and rebalancing twenty-first century global economy (Dicken 2015) has called into question these dominant theoretical and empirical understandings of the nature and role of KIBS (Daniels *et al* 2012). The rise of the BRICs economies has attracted research into the nature of KIBS within emerging economies, but this has largely focused on questions of how transnationalising western KIBS firms have sought to enter these emerging economies (Wu & Strange 2000; Ren 2011; Falk 2013) or how these economies represent developing markets for increasingly advanced services (Yeh and Yang 2013). The assumption (more often implicit than explicit) is that emerging economies lack the most

advanced and sophisticated business services (highest order), and that these leading knowledge industries remain dominated by western firms. Whilst economic geographers have been at the forefront of pointing to the importance of understanding the rise of services more generally in emerging economies, their focus has to date largely been concerned with “second global shift” a (Bryson, 2007) as lower order service activities relocate from the developed western economies rather than KIBS (e.g Grote & Taube 2006; Massini & Miozzo 2012).

The entry point of this paper is to argue that there is a substantial gap in current social scientific understanding, both empirical and theoretical, in relation to the nature of KIBS in non-western economies in general, and emerging economies in particular. This gap is evident from the disconnect between the social science literature and recent policy and media commentaries which indicate both the presence and increasing sophistication of domestic KIBS industries within many emerging economies (c.f. Yeh & Yang 2013; Daniels 2013; Dicken 2015). To develop this argument, the paper focuses specifically on KIBS within two Asian economies and seeks to make three arguments in relation to the development of KIBS. Firstly, building on the limited existing literature, it argues that despite national capitalist variations, mature Asian economies share important and distinctive characteristics of KIBS development that contrast to the dominant western theorization of KIBS. We propose the concept of *service capitalism* to capture the distinctiveness of KIBS development in different national economic contexts. Using this concept, we argue that Asian service capitalisms exhibit distinctiveness as a consequence of the way in which KIBS in many Asian economies have co-evolved with other industries, do not embody the western business practices the literature presents as ‘global’ and are delivered by differently kinds of firm and institutional entities that straddle multiple firms and industry sectors. We draw together research on Japanese service industries to illustrate this. Second, we argue that the development of KIBS within Asia’s major emerging market – China - provides further evidence of this distinctive path to KIBS development, demonstrating common characteristics that correspond to an Asian service capitalism with Chinese characteristics. Third, we contend this conceptualization challenges existing theoretical and policy conceptions of ‘global’ KIBS industries, embodied in concepts of the convergence of KIBS forms across national economies. A key implication is to question the degree to which KIBS firms and industries can become ‘truly’ global because of the characteristics of KIBS development in key emerging Asian economies (and potentially in other emerging market contexts). The approach

also calls into question wider arguments that emerging economies are developing in broadly comparable way to other national capitalist systems.

In order to elaborate these arguments, the paper presents research into the nature of two forms of Asian ‘service capitalism’ in relation to KIBS in Japan (a mature Asian economy) and China (an emerging Asian economy). Whilst significant variations exist between KIBS development in these economies, the research identifies common distinctive characteristics around firm form, institutional embeddedness, work practices and cultural norms that are markedly different from the hegemonic norms of western KIBS development. Drawing on the service industries and ‘varieties of capitalism’ literatures, the paper develops and deploys the concept of ‘service capitalism’ to reveal commonalities in underlying institutional setting, cultural context and business environment that have led to similar characteristic in both cases that are distinctive from the existing conception of western / global KIBS development. We do not seek to overdetermine the concept of a singular Asian service capitalism, recognising the diversity and variance between the Japanese and Chinese cases. However, we aim to demonstrate the common degree of distinctiveness when compared to dominant Anglo-American norms that has defined understanding of the globalization of KIBS. We also situate this concept as a more nuanced sector-specific framing of capitalist variation, sensitive to the critical debates about simplistic conceptions of nationalist capitalist variety (c.f. Peck & Theodore 2007; Peck & Yang 2013). In that respect, the concept of ‘Asian service capitalisms’ aims to offer a new cut at a useful means to think about capitalist variation in economies that are emerging in a period of increasing service sector dominance in global economic activity.

In the remainder of this paper, we develop these arguments in a series of stages. The next section considers existing theories of KIBS, arguing that these are significantly limited by their grounding in the experience of advanced economies in the west. Drawing on the VOC literature, it outlines the concept of *service capitalism* as a method of conceptualizing different forms of service sector development in different national economic contexts. We argue that this creates scope to better conceptualise the distinctive characteristics of KIBS in emerging economies in particular given their KIBS industries have developed at a significantly later point and in a different context than in advanced industrial economies. The third section follows on from this by outlining a conceptual framework for how the nature of *service capitalism* in Asian economies might be reconceptualised differently, creating scope to understand how services,

service firms and clients might be differently conceived in the Asian market context. The remainder of the paper then elaborates the utility of this approach in relation to two empirical case studies based on research in Japan and China. It ends by drawing together some conclusions around the concept of ‘*Asian service capitalisms*’ and argues that there is a pressing and distinctively geographical research agenda in the development of KIBS in Asian and other emerging economies.

2) Knowledge-intensive business services in the global economy: a western-centric view?

The centrality and significance of KIBS to advanced industrial economies is well established in the literature (Bryson and Daniels, 2015), and KIBS have been integrated as an increasingly familiar plank of policy approaches to economic growth for several decades (EU, 2014). KIBS comprise a wide spectrum of advanced services, ranging from various financially related services, organizational and IT related services to legal firms and firms specializing in developing the resource structure of clients. It is through the impact on the economy as a whole that has made the sector important. In the complex networks of the globalized economy, whether it is manufacturing or services, knowledge is the key and the borderline between the production of goods and services is increasingly blurred (Beyers, 2012; Daniels, 2012). Most manufactured goods with high value-added content are to a large extent dependent upon advanced services in the production process (Pla-Barber & Ghauri, 2012, Park & Shin, 2012). Knowledge-based inputs are increasingly central to all industry sectors from agriculture to mineral extraction (e.g. the oil industry) (c. f. Mackinnon & Cumbers 2003). With almost half (46 percent) of the value added in global production chains stemming from services it is clear that KIBS play an important part in the globalization of the economy at large (UNCTAD, 2013). Additionally, services constitute about 22 percent in total world exports of goods and services, comprising a vital part of multinational corporations’ intra-firm service trade.

In this respect, it is therefore unsurprising that there is a growing awareness among the emerging markets of the future potential within service economy growth (ADB, 2012; Jensen 2013). This relates to basic services providing employment opportunities for non-skilled labor and, more importantly, it also connects to the development of employment within advanced services. Properly managed, the service sector may constitute a new engine of growth for Asian,

African and Latin American emerging markets, where KIBS play an important part for improved productivity, innovation and internationalization for both general services and manufacturing. An increase of the service industry would not only have an important social and economic impact, but is central to facilitating green and sustainable growth (Jones *et al*, 2016). The development of KIBS is driven by different factors in Asia, Latin America, Africa and other potential emerging markets (Alvstam *et al*, 2016). Latin American markets have seen the rise of the knowledge economy in close relation to the proximity to the North American markets and incoming FDI in specific sectors such as IT (Stark *et al.*, 2014). Recent changes in trade patterns and global value chains in East Asia from trade in goods to trade in tasks, have also changed the concept of services (WTO, 2011). This means that knowledge-based intermediaries account for a much larger share of value added than previously. The Asian Development Bank (ADB, 2013) discuss the potential of this "great transformation" in economic development, that would imply a shift towards knowledge-based economic growth. What this really would imply for countries and firms in the region is less known and calls for intensified theoretical development to describe, interpret and explain these changes. The 'second global shift' - i.e. the rapidly increasing relocation of service activities to Asia - has transformed industries and firms and helped to maintain complex supply chains in operation, e.g. in IT-consulting or back-office activities (Bryson, 2007). As several Asian economies recently show signs of decoupling in the economic sense from traditional markets, the potential for further development of KIBS has increased (Noland *et al.*, 2012). Traditionally, the emerging markets have been heavily reliant on western firms for the provision of KIBS (Daniels, 2013).

A number of factors thus suggest the path of service development in emerging markets do not fit the western experience or the theoretical accounts that have been developed to understand it. An obvious key element to this is the very different nature of the global economy in the twenty-first century in which emerging market service sectors are developing. Economic globalization has meant that production in all industries is much more interconnected and the dominant role of TNCs as economic actors provides a very different context compared to the national-based development of western service industries in the twentieth century. In this respect, the need for flexibility within global production networks is driving the demand for services (Dicken, 2015; Coe and Yeung, 2015). Furthermore, growth in the global knowledge economy entails increasingly specialized service inputs and this requires a well-educated workforce and

competition is fierce for scarce human resources with the proper skills. It is well-established that KIBS activities tend to agglomerate within city regions around the world (Sassen, 2006; Taylor et al., 2013; Bryson and Daniels, 2015) but in today's global economy people with the required skills and experience may also operate from remote locations and only occasionally travel to meet clients in person (Rusten, et al., 2005).

However, most important to the overall argument of this paper, is that with respect to mature Asian economies such as Japan and South Korea, a limited but growing body of literature has shown that the nature of the KIBS has significant differences from western economies (c.f. Ström, 2005; Kim et al., 2012; Park 2014). Japan, being the third biggest economy in the world and the first industrial country in Asia, shows that industrial transformation and economic growth can take its own characteristics in relation to service economy development (Ishimaru, 1994; Ström, 2005). Services in the Japanese economy have been internalized within manufacturing to a higher degree than in the west. Supplying a variety of services, so-called service bundling, is also a common phenomenon among Japanese service providers (Bramklev and Ström, 2011). The development of KIBS is thus connected to several aspects of the Japanese business environment and industrial policies. Apart from underlying explanations of KIBS development based on culture and demanding customers, additional explanations such as customer interface and embeddedness in the home country have been put forward in order to determine the difficulties of internationalization among Japanese service firms (Asakawa et al., 2013). The organizational structure of industrial groups, the so called keiretsu has also created a special environment for KIBS development and impacting on internalization (Ström, 2005; Ito and Rose, 2006). Some studies have argued that in this that KIBS development in Japan (and South Korea) has not been successful and lagged western economies (e.f. Park and Shin, 2012). Whilst there may be merit in these arguments, we want to caution against comparing KIBS in these Asian economies to western economies in simplistic terms. We therefore to move beyond the terms of these existing conceptual debates.

3) A revised approach to theorising KIBS in national economic systems

Much of the KIBS literature that has focused on the experience of advanced industrial western economies, and the wider economic globalization debate of the last few decades has been

premised on three key elements: (i) that KIBS have developed in the advanced industrial economies and lagged in emerging markets; (ii) that a dominant Anglo-American form of KIBS activity has emerged and (iii) that the development of KIBS in emerging economies was broadly following this form of service development. Whilst the service literature generally (and that focused on KIBS in particular) has demonstrated differences in KIBS development between different national economic contexts (e.g. Faulconbridge 2008), it tends to treat KIBS industries as a facet of the global economy that have more in common with each other across the global economy than between national economic contexts.

Our argument is that such an approach has thus far failed to pay sufficient attention to important differences between KIBS development that exists between advanced industrial economies, and perhaps even more significantly, that it is ill-equipped therefore to understand the nature of service sector and KIBS development in today's emerging economies. This is not to dismiss the concept of economic globalization as relevant to KIBS, nor some degree of global convergence or similarity, but to argue for a more nuanced and sophisticated approach to understanding diverse KIBS development paths between different national economies and global economic regions. To do this, we propose the concept of '*service capitalisms*' to capture the distinctive characteristics of different service sector forms between national and regional contexts, and provide scope to understand where differences are important in shaping national economic development paths. We contend that such an approach enables a re-evaluation of how KIBS develop within national economic systems and the degree to which they are variably enrolled in transnational linkages. The task in this section is therefore to develop this more sophisticated interdisciplinary theoretical approach which draws upon work that spans economic geography, international business and management studies in order to better theorise Asian KIBS development (c.f. Jones 2017). Specifically, we develop this approach by further building upon two interdisciplinary bodies of work concerned with 'varieties of capitalism' and the nature of KIBS firm, products and work process.

3.1 Varieties of service capitalism?

Much has been written on the concept of 'varieties of capitalism' (VoC) within management studies, economic geography and other related disciplines. However, there is very little attention with the extant VoC literature on service industries in general, and KIBS in particular. We want

to argue that drawing on the insights of VoC work – as well as recent critiques within economic geography – offers scope to reconceptualise the dominant way KIBS have been understood in economic systems in the context of economic globalization. It also provides a new conceptual contribution to addressing the lack of attention to services in the VoC debate more widely. Of central importance in our development of service-oriented VoC approach, however, is the goal of using recent critical engagements to move beyond more simplistic national-based conception of how economic systems vary. Instead the approach here proposes a new interdisciplinary theoretical ‘cut’ at thinking through how a mid-level theorisation of capitalist variation might be useful around a different typological criteria (in this case a region and an industry sector).

To elaborate this approach, we need briefly to situate our arguments in the interdisciplinary arc of VoC thinking and its critiques. Without rehearsing all the detailed debates that have been engaged with in the VoC literature, the key tenets of the classic iteration of this theoretical approach (articulated by Hall & Soskice 2001) are premised on the argument that capitalist economies have evolved differently in different national economies as a result of varying socio—cultural and political contexts which are embedded in the distinctive historical paths of those societies. The focus of the approach is on institutional variances that exist in different national economies as the medium through which capitalist variety is constituted. Hall & Soskice (2001) differentiated between two distinct capitalist varieties - liberal market economies such as the UK or Australia (LMEs) and coordinated market economies (CMEs) such as Germany or Japan. They argued that five institutional spheres differentiate these capitalist varieties around industrial regulation, educational and vocational training systems, corporate governance, inter-firm relations and employee relations. Subsequent work in this field has developed the VoC approach to add additional capitalist varieties, developing additional capitalist varieties such as (Latin American) hierarchical market economies (HRM) (c.f. Schneider 2009) and dependant market economies in post-Soviet states (Nolke & Vleigenhart 2009).

At the heart of its theoretical contention, the VoC approach grounds capitalist variety around differences in “system coordination” and the idea of “institutional complementarities”. Broadly framed, institutional subsystems – which govern capital and labour – mould capitalist models, and when present in the “right” form, they mutually reinforce each other (c.f. Kang 2006). The VoC approach posits that the presence of “correctly calibrated” sub-systems (i.e.,

financial system, labour market, training system, and inter-firm relations) increases the performance, or the so-called “comparative institutional advantage” of the firm (ibid.). It would at first sight appear that research into this framework would be ripe for interrogation through service firms and industries, and KIBS in particular. A considerable body of work within what can be broadly termed the interdisciplinary ‘service literature’ has established the significance of key institutional contexts to the development of KIBS industries (Dunning, 1989; Illeris, 1996; Daniels & Bryson, 2002), the internationalization of KIBS firms (Hermelin & Rusten, 2007; Jensen & Petersen, 2014) and the nature of key places such as global financial centres for KIBS (Sassen, 2006; Taylor et al., 2013). The nature of, for example, certain financial markets or the context in which management and strategy consultancy firms develop bespoke knowledge-intensive products is framed by specific institutional and socio-cultural relations that are both embedded in places but also translocal in nature (Jones 2003). Yet there is very little dialogue between this service literature and VoC approaches that might offer a richer understanding of how firms and industries whose knowledge products are heavily shaped by and embroiled in key institutions develop within and between different national and regional economic systems. Only a few studies have moved significantly beyond the general conception of advanced economy KIBS that are constructed as being broadly similar in their products and mode of operation. Examples of attempts to differentiate this model do include a close examination of the context of legal services in Italy (Muzio & Faulconbridge 2013) or research into German consultancy firms (Glückler 2005; 2007). These studies at most limited reference to the potential utility of a VoC approach.

Our proposition in this paper is to foreground an interdisciplinary development of the VoC approach to the existing insights of the service and KIBS literature. The concept of service capitalist variety is used to anchor the contention that service sector development is heavily contextualised in national and regional economic systems and provide a mid-level theoretical means to understand the influence of institutional and socio-cultural context on distinctive pathways of development for service industries and firms. To elaborate on this further, we turn now to consider how the concept might be developed in relation to Asian service capitalist varieties.

3.2 Distinctive varieties of Asian service capitalism?

If the VoC literature has neglected services, then until recently it has also neglected non-Western economies. In relation to the goals of this paper, Carney *et al* (2009) specifically criticise the VoC literature for largely neglecting the Asian economies - with the exception of Japan and South Korea where work has focused on the key role of *emblematic* firms (keiretsu and chaebol respectively) in these capitalist varieties (c.f. McGuire & Dow 2009). Carney *et al* (2009) point out that in seeking to identify the distinctive features of the Asian capitalism beyond these two countries, different scholars have emphasized differing distinctive characteristics of Asian firms including: ownership concentration (Huegens, Van Oosterhout, & van Essen 2009), broad product market scope (Peng & Delios 2006), the organization of firms into business groups (Carney 2008) reliance on personal networks to facilitate transactions (Park & Luo 2001), dependence upon imported technology (Hobday, 1995), presence of family in top management teams (Steier, 2009), and modest emphasis given to research and development or the establishment of international brands (Redding, 1990). However, these different characteristics notwithstanding, they also point to considerable diversity in corporate form within Asian economies including, for example, specialist firms that participate in global commodity chains (Gereffi & Korzeniewicz, 1994), and large government-linked enterprises (Zutshi & Gibbons, 1998). They argue that the development in several Asian economies of technology-intensive firms (Dodgson, 2009) and “dragon multinationals” (Mathews 2006) indicate much greater variation in corporate forms than is predicted by VoC approach. A similar approach is taken by Witt and Redding (2013, 2014) where they show the complexity of business systems in Asia.

A key issue therefore is that even where Asian capitalism is differentiated and plural forms identified, it is often described in stereotypical, singular, and undifferentiated terms (Carney *et al* 2009). These include, for example, the generalisation that Asian capitalism is defined by its distinctive relational contracting among politicians, state officials, and elite entrepreneurs (Krueger 1974), that enduring inter-firm networks are chief characteristics of Asian capitalism (Fruin 1998; Weidenbaum & Hughes 1996) or that it is the essential role of the state as a prime mover of industrialization that distinguishes Asia’s state-led capitalism (Amsden 1989; Wade 1990). Carney *et al* (2009) posit the argument that these emerging economies are exhibiting genuinely new forms of capitalism and that research needs to focus on the diversity of capitalist models emerging in the region, whether there is regional convergence or convergence

with other capitalist varieties and the nature of firm – institution co-evolution in different Asian capitalist economies.

This is where (political) economic geographical work has engaged significantly. Since the emergence of the VoC approach economic geographical work has both utilised and criticised the VoC literature, and notably in relation to Asian economies. A key theme is scepticism at the reductionism surrounding both national-based capitalist systems, and also the nature of capitalist diversity. More than a decade ago, for example, Yeung (2004) developed the argument that Chinese capitalism represents a hybrid western / non-western form and challenged reductionist ‘pure’ concepts of a Chinese form of capitalism. Whilst arguing that there are considerable ‘affinities’ between economic geography and the VoC approach, Peck & Theodore (2007) broaden these critical arguments further in arguing that a series of limitations constrain the approach. These include the fact that ‘in some cases, it has given license to excessively narrow, firm-centric, rational action models of variation’ (ibid.: 750), and where its interest in institutions ‘bleed off into functionalism and fetishism, when such superstructural phenomena are afforded exaggerated normative and explanatory weight’ (ibid.: 750). Added to this they suggest a pervasive tendency to methodological nationalism and spatial archotyping’ and an all-too-common tendency for ‘the coherence of national regulatory configurations’ to be ‘presumed rather than demonstrated’ (ibid 750). Peck and Theodore make three suggestions therefore: first, moving away from ‘ideal type’ capitalism that sees the economic and non-economic at different ends of a bipolar spectrum in favour of a view of capitalist variation that is ‘diachronic’ and the product of a joint evolution (ibid. 753); second, challenging global convergence in capitalist form narratives ‘transcending the cataloguing and labelling of *variety* according to institutional criteria, to probe the meaningful forms of *variegation*’ (ibid.: 761); third, using ‘variegated capitalism’ as a means to engage ‘with macroeconomic patterns and trajectories the restructuring of institutional ensembles...and big geographies of capitalist restructuring’ (ibid. 764).

More recent work has applied this to Asian capitalist cases in particular. Peck and Zhang (2013) argue, for example, that a form of capitalism with Chinese characteristics is increasingly evident but that the VoC approach has not well-captured the pronounced and increasing penetration and mutual dependence of capitalist economies. They challenge the typological elaboration of a ‘variety’ over causal explanation and the extent to which the Chinese economy

can be meaningfully characterised as ‘capitalist’ because of its state form and its position within or beyond conventional understandings of capitalist variety. In a subsequent contribution, they go on to suggest that rather than forcing the Chinese model into analytical boxes derived from analyses of European and North American capitalism, it would be better to view Chinese capitalism as ‘a complex formation’ that is ‘more appropriately understood to exist in a ‘triangular’ relationship with the two conventional poles of varieties scholarship, the US-style ‘liberal market’ economy and the German-style ‘coordinated market’ economy’ (ibid.: 359). This is based on an internal heterogeneity argument, that regional differences across China call into question those models of capitalism that focus narrowly on institutional coherence at the national scale. They elaborate on this, but proposing a series ‘sub-models’ of Chinese capitalism which equate to ‘regional styles of capitalist development’. They argue that these are distinct from one another and also deeply networked into a range of global production networks, and ‘offshore’ economies but also ‘simultaneously remaining, to some degree, distinctively Chinese’ (ibid.: pp).

However, in seeking to deploy these existing approaches to understanding Asian capitalist variation in relation to services industries, we identify three key limitations to its utility. First, we contend that the system-based concept of capitalist variety within VoC theory tends towards overdetermined frameworks around both the role of institutions and their influence on KIBS firm and industry development. KIBS firms - unlike many of the manufacturing or technology firms studied in the VoC literature - are entangled in complex relationships with multiple institutions which both blur the boundaries of firms and other institutions. In several Asian economies including South Korea and Japan, it has been shown that KIBS firms evolved closely with manufacturing firms to further their advancement, and with little autonomy from the state (c.f. Kalinowski & Cho 2008; Cho & Kalinowski 2010). If some of the literature has problematized VoC approach for reducing to national typologies and singular capitalisms, then we argue that the building blocks of VoC (what is an institution) are as problematic when seen through the lens of contemporary service sector activity. Second, and related, because of the knowledge-intensive nature of both the work process and of products, the nature of agency in these relationships is complex and distributed between actors that straddle the firm / institution binary. Third, and of significance to the argument that VoC has not coped with global interconnectedness well, KIBS firms are more easily embedded in translocal relationships and business spaces (c.f. Jones 2009) which dilutes and complicates the question of a distinctive

national-based capitalist variety. We would argue that existing analyses which draw the conclusion there is no single Asian capitalist variety (Carney *et al* 2009) or that Chinese capitalism can be only understood as diverse and fractured (Mulvad 2015; Csanádi 2016; Zhang & Peck 2016) need careful qualification and examination. Rather, we suggest that whilst recognising diversity, identifying mid-level commonalities in Asian economies has merit in seeking to understand the nature and ongoing development of service activity. Finally, and following Witt & Redding (2013, 2014) we argue that even the variegated capitalism approach does not escape the problem that none of the existing VoC frameworks capture all Asian types of capitalism and that Asian business systems cannot be purely understood through categories identified in the West. Our analysis further suggests a need for the field to invest in further research on social capital, culture, informality and multiplexity.

In order to attempt to overcome these challenges, we insert the insights of the wider service and KIBS literature to apply a service capitalisms approach to Asian capitalist varieties. This has at least four dimensions. Firstly, as with existing VoC theories, we seek to identify Asian *institutional contexts* for KIBS development but contend these cannot be reduced simplistically to national-scale units (thus enabling an account of a variegated form of service capitalism at both the sub and supra-national scales). Furthermore, we draw insight from the wider literature on Asian capitalist varieties to argue that western-based conceptions of institutional context are inadequate for understanding Asian KIBs. In particular, the nature of governmental and regulatory institutions in many Asian economies differ considerable from western models, and importantly there is a blurring between service firms and other institutions in economies such as Japan and Korea, and on the different historical and political evolution of institutions in economies where the western concept of purifiable KIBS industries is problematic.

Following on, a second dimension to our theorisation of Asian service capitalisms is to seek to identify commonalities in Asian KIBS *firm form* using new concepts that escape the constraints of those used in advanced western economies. As the limited literature identifies, many Asian KIBS firms do not well fit the dominant concept of a western KIBS firm and are very differently configured in terms of the types of service they provide, their organizational form, relationship with client firms and operating model. We propose therefore to that a distinctive conception of Asian KIBS firm form represents a useful differentiation for thinking through a distinctive aspect of KIBs in Asian economies.

Third, whilst the existing KIBS literature has increasingly tuned its attention to consider the nature of KIBS products, the characterisation of knowledge intensive and embodied service products marks a dimension of differentiation for Asian economies from the hegemonic understanding of what a KIBS service ‘is’ and how it is delivered within Asian economies. In short, we contend that KIBS products share common differences within many Asian economies from what those products may be understood to be based the dominant mode of understanding KIBS *service products* within the western-based KIBS literature.

Our final theoretical dimension to the concept of Asian Service capitalisms concerns the nature of the KIBS *work practices*. Again a substantial western-based literature has examined the nature of KIBS work as embodied, knowledge intensive service work (c.f. Faulconbridge 2008; Faulconbridge *et al* 2008). This literature acknowledges the strong influence of cultural context and dominant behavioural norms in this work form. Drawing on practice-centred approaches in economic geography, (c.f. Jones and Murphy 2011), we suggest that at the level of the work practices another dimension to differentiating the nature of Asian knowledge intensive services rests around a different form to the work process and that whilst there are obvious differences in national and regional contexts across Asia, this dimension of commonality represents another conceptual field for understanding the differences in KIBS within Asian economies.

In order to elaborate the utility of this proposed theoretical framework, we seek to apply it using two empirical case studies concerned with the case of Japan and China respectively.

4) Japanese service capitalism and the myth of its lagging KIBS industries

We first elaborate the service capitalism approach by presenting research into the nature of KIBS in a mature Asian economy – namely Japan. Whilst it is acknowledged in a limited literature that Japan has had as a very different KIBS trajectory from many western economies (Ström 2005), we suggest that our conceptual framework for understanding the Japanese variant of service capitalism provides a more holistic understanding of the way KIBS development has shaped and is shaping Japanese economic development. Using this approach we move to contest existing approaches that have argued Japanese service industries have shown signs of lagging other advanced OECD countries. Such arguments have been based on macro-level analysis showing that the share of employment and contribution to GDP by KIBS in Japan has been lower than

western economies during the last 25 years. However, the approach developed here suggests this may be a misconception based on the ‘hidden’ nature of KIBS within Japanese service capitalism, and a consequence of KIBS industries in Japan following very differently evolution (c.f. Ström and Mattsson, 2005). This section thus draws together empirical research from a range of research projects on Japanese KIBS spanning a period 2001-2011. It presents results from studies concerned with Japanese KIBs undertaken in Japan but also in East and Southeast Asia. The data has been gathered through both qualitative fieldwork consisting of interviews with senior management across several projects, but also survey material of Japanese firms venturing out into the regional market. The interviews cover sub-industries of KIBS such as finance, management consulting, IT-consulting, legal consultants, advertising, think tanks of so-called Research Institute Corporations, General Trading houses (Sogo Shoshas), in excess of more than 30 interviews. Additionally the material covers data on the connection between manufacturing and services, through the study of service offerings among manufacturing firms in Japan. Table 1 sets out as a table the key findings in relation that form the basis for our theorization of Japanese (and Chinese) service capitalism, and will be referred to through the following discussion which relates this to the four dimensions proposed in the preceding section

[INSERT TABLE 1 ABOUT HERE]

4.1 Institutional context and firm form

With regard to the nature of institutional context as it relates to KIBS development Japanese service capitalism, the research indicates two major findings. First, services in general have traditionally been seen as something you give away ‘for free’ in the Japanese economy, out of respect or to establish a long-term relationship. Or in the words of the senior economist at a leading Research Institute, Tokyo: “*services used to be free in order to build long term relationships and show client commitment*”. The institutional context has thus shaped the very concept of what constitutes a service at all, and is related to Japan’s post Second World War approach to industrial policy with strong state institutional investment mechanisms like MITI (Wilks and Wright 2016). Within Japanese financial services, for example, banks do not only lend money to clients, but also supply other types of services that would in the western economic

context render separate income. The pattern is also similar within manufacturing industries where services have been attached to the product for free (Bramklev & Ström, 2011).

This service approach can be seen through the words of a manager at a leading Research Institute: *We give services to our main bank*. A similar approach can be seen at another RIC where the senior economist explains that the organization was *'set up in order to support our main group company, since they know very little of business model applications within professional business services'*. In this respect, western models of both KIBS institutional context and the nature of the service product are problematic. The interconnectedness of manufacturing and services in Japan shows that KIBS firms have highly sophisticated product-service-solutions, but that the challenge exists in pricing the created value in the correct way (Bramklev and Ström, 2011). Government and other non-firm institutions are also much more clearly involved in co-production of service products (and see Table 1). This connection can be exemplified through a Research Institute manager working in South East Asia, out of Singapore, since the firm has *'been very successful at getting contracts related to Japanese government ODA'*.

Second, the Japanese business environment and its interaction with state and other regulatory institutions has generated a lower degree of externalization compared to the West. Instead service internalization has proved to be common, and this has been bound into the role of the state in fostering economic growth in relation to promoting specific sectors in the post war period (Porter et al, 2000; Ström and Mattsson, 2005). Part of this strategy has been to have close relationship with the main industrial actors through formal and informal ties, where bureaucrats have retired and moved into the business sector.

Turning to firm form, the corporate structure of business groups has created an introvert attitude towards the possibilities to capture market opportunity outside the larger keiretsu (company group). In this respect, in Japanese service capitalism KIBS firms are distributed within corporate groups and between divisions within companies within those groups. With a significant proportion of the KIBS sector internalised and distributed within large company groups, many KIBS service are not delivered by independent or separate 'service firms' as in the western model. In the words of a manager of a leading RIC in Tokyo the organization was again specifically created to provide a range of knowledge-based services that *'support future planning of technology within the larger industrial group'* (paraphrased).

A second aspect to this difference to KIBS firm form in Japan over the last couple of decades is identifiable in the way Japan's KIBS industries have begun to engage in regional production works across East Asia. A managing director of one of the biggest sogo shosha stated that *"our financial strength and capabilities will be of great advantage in supporting our clients... Instead of paying for services we can assist in return for shares"* (paraphrased). The interviews and survey data shows that Japanese KIBS firms have followed their clients abroad but in contrast to western economies, Japanese service firms were localized to handle and support operations with a close connection to Japan (see also Ström and Yoshino, 2009). This has had major implications for the firm-level development. It has reinforced the introvert character that existed from the Japanese domestic market. In the words of another RIC respondent:

'..too much is put on Japan and trying to fit into the strategies of Japanese customers. It limits the possibility to expand. (Paraphrased, Managing Director, RIC, Singapore)'

It has been and continues to be difficult for these KIBS to expand their client base beyond their Japanese parent firm or keiretsu related industry group. Additionally, organizational structures are often not very clear. Irrespective of sub-industry, Japanese KIBS firm managers in the East Asian market felt that the firms had a difficult time of deciding to run the business from regional hubs such as Singapore, Hong Kong or Shanghai or from the Japanese headquarters (Ström, 2006). According to the interviewees in that same study, this had a negative impact on the potential to take actions for expanding the client base:

The importance of introducing new services to the existing client base is most important way of sustaining and developing client relations, and it gives a possibility of trying out new services in client organizations that could later be promoted and expanded to new customers.

(Paraphrased, Managing Director, Financial Service Provider, Singapore)

Thirdly, the research indicates that Japanese KIBS often exist in corporate structures that have no comparator in western economic systems. In the Japanese economy, keiretsus with a leading sogo shosha or group 'think tank' have also generated a rather special position for these KIBS providers. This was well explained by a soga shosha managing director in that *'the keiretsu*

'creates what can be called a loose integration' that acts *'as support to group companies providing many services'*. Group companies thus use this as a relatively exclusive clearing house for business services. The sogo shosha can in many cases be labelled a 'one-stop-shop' for advanced business services. Those comprises activities such as trading and finance, but also project management, advanced logistical service, IT-consulting or risk-management to mention but a few activities:

...heavy investments made in up-grading the business towards IT. This was done both in-house through new solutions, out-house through investments in various companies.

(Managing Director, Sogo Shosha, Singapore)

However, the research also suggests that technological and market pressures are leading to evolution in this form of KIBs provision through keiretsu. Technological change was in particular eroding the provision of lower order services that could be out-sourced, with managers keen to move into higher value added activities:

New IT solutions have put pressure on the traditional role of the sogo shosha as an intermediary. Activities such as investment in retail, and other growth potentials have become important. We need to further increase other value added service activities, but the problem is to price them competitively and disconnect them from the trading activities.

(Managing Director, Sogo Shosha1, Singapore [paraphrased])

4.2 Service products and working practices

Japanese KIBS service products are significantly different to western products in being often delivered through 'service-bundling'. The research suggests this is evident in the way that the products offered by these KIBS 'one stop shop' corporate entities has continued to evolved in response to internationalization. It also aligns with the goal of diversification which has been on the agenda for large Japanese corporations in general for more than a decade. A good example was provided by the managing director of a Japanese private equity firm interviewed in Tokyo in 2007, who expressed how they were working with larger entities to facilitate investment in new

projects in Japan and the rest of Asia. But it also shows the limited connections that exist within related KIBS sectors such as private equity and asset management:

We are working with several large firms such as Nippon Steel and Toyota, but also with financial institutions such as Development Bank of Japan to create investment in new sectors...it is a new situation where several larger firms have been developing in-house venture capital functions. It enables trials and building long-term relations with partners. Limited funds are coming from sources such as pension funds, into the private equity industry.

(Managing Director, Japanese Private Equity firm, Tokyo)

The distinctiveness of this form of service capitalism is evident in the challenges experienced by Japanese firms in provided KIBS products to external non-Japanese clients in advanced services in a foreign location. A similar issue was clearly visible among the 'Research Institute Companies' - a special kind of KIBS blending the characteristics of a think tank with more traditional management consulting attributes. Their products are different forms of analytical advice to keiretsu related firms. Their brand name can make it difficult to attract external clients due to the concern that they are too tightly associated with potential competitors. This creates kind of lock-in effect for business development:

All customers are Japanese, and we focus on working with the existing customers. ...there is no real base to attract western clients other than serving them indirectly through the securities trading or asset management.

(Managing Director, RIC, Singapore [paraphrased])

A second issue is cultural differences and different nature of working practices in much KIBS work within the context of the Japanese firm. As embodied interpersonal work, the nature of Japanese KIBS working practices within both specialist KIBS firms and the functions delivered in shoga shohas captured a (very) different set of behavioural norms from western concepts of advanced business service practice. This was well-illustrated by the challenges identified by Japanese firms operating overseas in relation to western KIBS workers

...local employees do not work as hard as employees in Japan and that they do not share the natural loyalty to the company that is expected in the Japanese market.

(Managing Director, Financial Service Provider, Singapore, [paraphrased])

On the other hand the research also suggests within Japanese KIBS senior employees would potentially prefer to join other western service providers instead. There is in that sense employee dissatisfaction with facets of Japanese service capitalism. In part this suggests a desire for the Japanese model to learn from western transnational KIBS firms, in part a response to the growing perception of competition by leading firms operating in Japan:

We see competition from Western financial service providers in Japan and at other locations in Asia. But we feel that our experience of the Asian market is a competitive advantage.

(Managing Director, Japanese Bank, Tokyo [paraphrased])

McKinsey works with the major Japanese multinational firms on a global scale. They want to work with us because of the global reach and that we have a long experience from different industries.

(Paraphrased, Partner, McKinsey, Tokyo)

In this respect, Japanese firms seeking to internationalise have been keen to work with western KIBS firms but the major focus has remained on the need for western-style KIBS input to enable operation outside the Japanese economy, rather than transform the nature of domestic KIBS products, firms and practices which remain strongly embedded. The research does suggest some impact of these global pipelines of western KIBS activity, but equally reinforces the ongoing distinctiveness of KIBS provision within the Japanese economy. The research studies drawn upon here thus points towards that the development of KIBS in the third largest economy in the world has evolved in a different manner compared to the development in other mature economies. We would argue it is useful to conceptualise this Japanese service capitalism since many of the elements transcend specific service sectors and are rooted in distinctive institutional

and socio-cultural business norms. This is not to argue the form of this service capitalism is not fluid or evolving, and key question is its development trajectory in relation to the penetration of western KIBS norms. The research indicates however that convergence is relatively limited and the future evolution of Japanese service capitalism may not necessarily entail greater alignment with so-called the ‘global’ norms assumed to be the trend in the globalization debate of the 1990s and 2000s.

5) The emergence of Chinese service capitalism: the case of finance and legal services

The second of our two case studies presents research on KIBS in relation to an emerging economy form of Asian service capitalism – China. In contrast to Japan, China’s KIBS sector is more recent with several industries such as strategy consultancy or certain investment fund industries (e.g. sovereign debt) only having emerging within the last decade. The research presented here focuses on the financial and legal service sectors, and elaborates how a contrasting form of Chinese service capitalism is discernible which has significant difference to the western dominant form but which also has notable commonalities with the Japanese case. This case study is based on research conducted in three key cities in China – Beijing, Hong Kong and Shanghai - between 2013 and 2015 into the nature of role of KIBS inputs into inward investments by foreign firms through indirect investment. The study was thus concerned with equity investments, venture capital and joint ventures between foreign and domestic Chinese firms; it specifically did not seek to examine foreign direct investment. The research consisted of around forty-five depth interviews with key senior managers who represented key informants in three main KIBS sectors: finance, legal services and management / strategy consultancy. As with the preceding section, Table 1 sets out the key findings in relation to KIBS that form the basis for our theorization of Chinese service capitalism, and will be referred to through the following discussion which relates this to the four dimensions proposed in the theoretical section

5.1 The nature of institutional context and firm form

As with the Japanese case, the research suggests that the development of Chinese service capitalism is similarly embedded in the specific nature of the institutional context provided by Chinese state-led capitalism, as well as sub-regional context of the provinces that Peck and

Zhang (2013) make reference to. Again a key difference with western service capitalism is the blurred boundaries between state / firm and firm / sector that exist in the development of KIBS. With regard firstly to the institutional context, the state institutions have had and continue to have (despite liberalization) a strong interventionist role in the nature of KIBS service activity. Financial services have for many decades existed, and to some extent evolved out of, state-run banks and financial institutions. As one senior manager explained, the nature of trading or asset management as an activity *'has a strong heritage of how state banks and other related institutions behaved before the 1990s'* (Managing Director, Chinese bank, Beijing). Many forms of activity common in western financial service firms were either restricted or differently configured from western models and the nature of those service sectors or activities remains distinctively shaped by that legacy:

Asset management here [Beijing] as an industry is still very different to outside the PRC. Who would invest in what, what assets those owning a fund would be expected to own and who the stakeholder are in that service is very different
[Senior Asset Manager, Fund Management firm, Beijing]

The institutional context in China is shifting for service firms, but to some extent contrary to media narratives, 'normalization' to western institutional 'standards' is better understood as selective hybridization of the Chinese institutional context with elements of that found in western economies. A good example given was in financial services:

'A sovereign debt industry has emerged here, only in the last 5 -10 years...it looks something industry you might find in London or Zurich but it's actually closely bound into the state regulators...these firm have been set up by people close to the state banks, the government...you couldn't set up a western competitor here because you're not close enough to those institutions...

([paraphrased] Managing Director, EuroBank2, Beijing / Shanghai)

Regarding firm form, Chinese KIBs share similarities with the way that the Japanese case is different to the western 'norm' (c.f. Jianghuai 2010). Many KIBS activities are delivered by non-

‘pure’ KIBS firms, and in some cases, certain types of services such as investment advice would be offered for ‘free’ around existing inter-corporate relationships. Respondents suggested this due to ‘the influence of strong state institutions’ and ‘state ownership within key industries’ and also spans what in western economies would be the public / private sector divide:

the market for some services as you might understand them in London is simply not there but produced internally ... Chinese banks are obviously close to the government, and behave often more like branches of government than commercial firms...

[Senior investment manager, Hong Kong Investment Fund 2, Beijing, paraphrased]

A second key element to this is the need for ‘soft access’ to navigate the state institutional complexity that shrouds much investment activity, and also to mitigate in ‘grey contexts’ around ‘unofficial’ (or in some cases corrupt) practices. A good example was provided by a respondent discussing the nature of financial analysis and investment services provided by Chinese financial intermediary firms:

Our western investors using their global advisors of course, but we make use of local firms who can...well navigate both the formal regulatory landscape and the local cultural and political subtleties...so you have these guys who can tell you how things are with the ministry and the government’s view of what a state company is going.... the soft networks to get access to that kind of knowledge which is essential...

[Fund Manager, Hong Kong Financial Firm3, Beijing]

Finally several domestic KIBS activities within China have emerged through a broad ‘service bundling’ model where certain types of advisory and consultancy services are being provided by large corporations to smaller allied firms and subsidiaries. Whilst not as starkly evident as in Japan, the Chinese case does again challenge the dominant conception of what kind of firm provides a knowledge-intensive service:

Outside China, you might get the consultants in, right? To do you market analysis, scope out competition and so on...but here it's about the state firms a lot of the time and that kind of advice isn't coming from your Chinese McKinsey or Accenture or someone...its often from people in the state banks, close to the ministry or somewhere in another allied Chinese firm...

[Venture Capital Firm3, Hong Kong]

5.2 'Hybrid products' and culturally-tailored practices in Chinese service capitalism

To a greater degree than in the Japanese case, the research suggests that the historic and ongoing presence of transnational (western) KIBS firms in China has been and is continuing to be important in the development of domestic Chinese service capitalism. This is not a surprising finding in itself, but important is the further finding that foreign firms are not providing a simple 'demonstration effect' in the Chinese economy with respect to high order business services and furthermore, their presence is in part responsible for shaping the distinctive path of domestic KIBS industry development. In this respect, the relationship between domestic and western KIBS firms operating in China is complicated, and the nature of service products being provided by domestic Chinese firms are not direct substitutes for services that could be sourced from western business service firms.

Regarding the nature of KIBS products, respondents across the financial investment sector reported using domestic Chinese business service firms for specific aspects of a deal, often in combination with services provided by western firms:

Well, in terms of legal services we use both [domestic Chinese and western legal service firms]. We increasingly have to because once you start on the path of investment in a Chinese company you need a Chinese law firm. There are regulatory aspects to that in that someone like [UK law firm] can't do certain things for you in China, but also they don't have the same capacity in terms of domestic lawyers and they are not in those networks...you're buying local legal advice from local lawyers who can advise on things your western advisors can't

[Lead Investor, Venture Capitalist Firm 4, Hong Kong]

In essence, the KIBS products could be argued to be ‘hybrid’ types that in part resemble western KIBS norms (e.g. legal advice) but where Chinese KIBS providers are also able to wrap up a range of other forms of advice (political or cultural) that would not normally be a significant element to the global (western) norm.

A second element which the research also suggests is in common with the Japanese case, is the nature of embodied work practices that Chinese KIBS employees are able to deliver. Western KIBS firms operating in China reported considerable challenge in western employees being able to translate the norms of KIBS working practices for Chinese clients:

“...business norms, ways of doing things, are obviously different here...everyone talks about culture difference and the language and so on but that is really only the headline [sic]. If you’re in the advisory business here – whether that’s investment consultancy or legal services – a Chinese client has a whole set of different expectations from the way you offer advice to the etiquette of who comes to your meeting...you can’t just walk in with an American or European approach and expect that to be accepted...”

(Head of Group, Asset Manager, US Joint Venture, Beijing)

Whilst foreign KIBS firms highlighted the way in which their strategies for recruiting increasing number of ‘local’ highly skilled employees contributed to significant upskilling and capacity in the labour markets of key Chinese global cities, respondents suggested that the capacities of Chinese professional KIBS employees was also concerned with the need be able to deliver KIBS products (e.g. consultancy advice) in a way that encapsulated a range of cultural norms:

We have moved to seeking local talent in terms of who we employ for a whole variety of reasons – language, cultural understanding, the costs of traditional expatriate labour...and this has made a big difference in terms of whose wants to work for us...

(Head of Group, Asset Manager, US Joint Venture, Beijing)

If embodied KIBS service work is bound into the nature of the service product itself, then in Chinese service capitalism the research suggests a complex set of Chinese and ‘western’ attributes are evident that one consultancy manager described ‘a Chinese way of doing things’ in the content of delivering bespoke advice. To do this, firms are increasingly making use of a cohort of overseas-educated Chinese KIBS professionals who can develop these hybrid modes of working. One manager outlined his recruitment preference in that respect:

Typically these are younger Chinese who have maybe got a US education and come back before gaining experience in local financial firms for foreign clients, some worked for foreign firms maybe”

(Senior Fund Manager, Asset Management Firm, Hong Kong / Shanghai)

6) Conclusion

The major contention of this paper is that research on KIBS within the social sciences has primarily focused on the development of advanced business services in western industrial economies, and that this has also framed theories of KIBS development in debates about economic globalization, the global knowledge economy and global city networks. Our goal in this paper is to provide a challenge to these hegemonic understandings in the literature of the nature of KIBS as a set of industries or activities, and accounts of the way in which KIBS are increasingly present in emerging economies in the twenty-first century. Thus far theoretical propositions around a ‘second global shift’ and the rise of advanced services in emerging economies has not been sensitive enough to the specific contexts of service sector development within different contexts. The empirical case studies on Asian economies presented in this paper provide we think a powerful illustration of this.

In seeking to theorise how KIBS development in Asia might be conceptualized differently than in western economies, we have proposed a conceptual framework around the concept of ‘*service capitalism*’. Building on both the varieties of capitalism and service industry literatures, we recognize that such a concept goes beyond KIBS themselves and could encompass the wide variety of industry sectors captured by the messy concept of ‘services’. However, KIBS represent undoubtedly a set of the key industries in terms of the contemporary global capitalist knowledge economy and we leave an extension of the wider potential for service capitalist

variety to other lower order service industries to future studies. Our purpose here rather is to make the case for the utility of understanding how key service industries have developed and exist differently in different national and regional economic contexts, and that dominant understandings of KIBS based on western experience may not be a good guide to understanding either the nature of existing KIBS in different regions of the global economy, nor how these activities are likely to evolve in future. Our two Asian case studies share common dimensions in the nature of these forms of service capitalism, and whether that might warrant the label of an Asian form of service capitalism as a higher level concept is debatable. More important however is their degree of difference to the models of service industry development found in western economies, and we argue that it is important for future research to seek to develop theories sensitive to these important differences. It also, equally importantly, provides a foil to begin to conceptualise the globalization of service industries that does not subsume understanding towards overdetermined narratives of convergence to ‘global norms’, but equally recognizes the existence and significance of mid-level commonalities that develop as the interconnectedness of the global economy increases. Finally, we hope also that the concept of *service capitalisms* might breath new interdisciplinary life into debate about service sector development that have long been firm and industry-oriented in epistemological terms. Whilst not unaware of the limitations to VoC-inspired approaches, we believe that a sector-oriented approach such as the one we have outlined in this paper has much wider applicability for thinking through how service industries develop within different economic spaces at a variety of scales.

[10183 words]

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