2. Theories and conjectures

2.1 Introduction

There are new directions of economic science that can deal with the knowledge factor and there are new directions that concern internal business organization and the development of external markets, but neither kind of scientific inquiry deals with professional knowledge and markets for professional services. In organization theory, there is a rich tradition in the study of complex and professional organizations, but this theory does not encompass the market transactions of professional services. Nonetheless, these directions in economics and organization science do provide us with conjectures that assist in the development of a specific theory of the professional services economy. In this chapter, these conjectures are discussed and used to construct a conceptual framework for the role of professional knowledge in business.

The chapter is built in four steps, each in a separate section, such that each successive step adds a new element or new perspective, in the form of an unfolding argument. The sequence runs from content (what is professional knowledge), to function (what is the value for business), to micro-level and internal organization (how to organize professional support within a company), and finally to meso-level and external organization (when to use external services in the market place, when to use internal support). The second section concerns the definition of knowledge in general and professional knowledge in particular. New economic theories that explain the organization of economic change provide us with useful conjectures in this respect. The third section is focused on the functions --the 'value for money'-- of professional support in business operations; the fourth section deals with the internal organization of professional support. In sections three and four, useful concepts of the administrative sciences are discussed at length, in particular the concept of complexity. In the final section we focus on market exchanges of professional services, revisiting the economic argumentations in order to integrate these with the sociological and administrative arguments.
2.2 Towards a taxonomy of knowledge in business

An understanding of the functions and the administrative context of professional knowledge in the economy must first of all be based on an account of the roles and forms that knowledge inputs can take in general.

A main thesis put forward here is that knowledge about a specific subject field can have various particular modes. One of these modes is professional knowledge. Another thesis is that business activity or in fact any kind of organizational activity requires a diversity of forms of knowledge. Business cannot thrive on professional expertise alone. The latter has to be supported, steered and integrated by other forms of knowledge. As will be explained in later chapters, this characteristic use of knowledge lies at the root of many of the managerial and organizational complexities and difficulties of valorizing professional knowledge in business administration. First of all, we have to construct a taxonomy of forms and functions of knowledge in business.

Few central concepts that are used so often in the social sciences are defined as vaguely as the concepts of information and knowledge. In three influential academic publications about the advent of an information- and knowledge intensive society, 'The production and distribution of knowledge in the U.S.' by Fritz Machlup (1962), 'The coming of post-industrial society' by Daniel Bell (1973), and 'The information economy' by Michel Porat (1977), the basic notions of knowledge and definitions of 'knowledge workers' are rather loosely applied. Nonetheless, these three authors have drawn our attention towards important transformations that have been disregarded by mainstream economics and administrative science. In economics and organization studies, attention has been almost completely confined to technical knowledge as it relates to product- and process innovation. Some recent breakthroughs in the field of organizational economics, however, are very useful in building a more nuanced taxonomy of knowledge, and we therefore start the discussion with some developments in economic thought.

Technical knowledge and innovation research

In mainstream economics, the knowledge base is simply the state of the production function, an abstract notation of the technology that transforms physical factors and labour into industrial output. Changes in the production function, leading to higher productivity and quality of output --in other words, technical progress-- are thus regarded as a result of improvements in technical knowledge. The questions of how these improvements are reached, how information or knowledge may be qualified and quantified, and what kinds of barriers firms may encounter in improving the knowledge base, have for a long