Cognitive and cultural proximity between service managers and customers in cross border regions: knowledge transfer implications

Abstract

Knowledge transfer between customers and managers is an important source of new ideas for innovation in the service industries. In cross border regions, inter-cultural interactions engender but also constrain knowledge transfers between actors even when actors share similar economic and technological knowledge bases. This theme is explored through an analysis of cognitive and cultural proximity between service managers and customers from "the other side" in a European cross border region where the constituent regions have broadly similar national cultures: Tornio-Haparanda on the border between Finland and Sweden. Semi-structured in-depth interviews with Swedish and Finnish managers of small and micro businesses serving customers from both sides were undertaken to gauge their perceptions of the impact of cultural and cognitive proximity to customers on learning interactions. The study adds to the emerging literature in this field by identifying seven elements of cognitive and cultural proximity including mentality, ways of solving problems, conservatism, shared language, focus on contextualized details, mentality and use of similar technologies. It is also original for the implications of perceived cultural and cognitive proximity on cross border knowledge transfer between customers and managers.

Keywords: knowledge transfer, cultural and cognitive proximity, cross border regions, relational proximity

Introduction

In the rising globalized knowledge economy, the long-term competitive advantages of Cross Border Regions (CBRs) increasingly rest on their capacity to create integrated innovation spaces, characterized by substantial cross border flows of knowledge, expertise and skills, via high intensity human mobility (Lundquist & Trippl, 2013). This is particularly germane to European Union's open internal borders, where restrictions on cross border movement have been lifted stimulating the development of cross border destination regions and encouraging travellers to challenge and explore transnational regions as places for communication and interaction. This has led to the new challenges and possibilities for development of cross border tourism destinations, especially in the European northern peripheries, such as the border between Sweden and Finland (Prokkola, 2008).

Many of the banal practices of cross-border mobility, which mostly lie beyond the visions of regional strategies constitute potentially significant sources of knowledge transfer, and innovation. One specific, and under-researched, type of cross border mobility is trans-border customer mobility resulting in potential inter-personal interactions between customers and managers taking place in cross border tourism shopping spaces. This is particularly common between small countries with relatively long open borders compared to their size, such as in the EU, which also have considerable cultural variations (Spierings & Van Der Velde, 2008).

Most studies focus on national innovation systems or territories within these (e.g. regional innovation systems and learning regions), neglecting CBRs characterised by international differences in collective learning systems or socio-cultural proximity. There has also been a

tendency to focus on manufacturing industries and large and medium size enterprises and to overlook learning processes in the service industries (Un & Montoro-Sanchez, 2010; Aponte & Zapata, 2013), with a particular dearth of research on small and medium size service firms (Forsman, 2011). This is surprising given the policy focus on innovation in small and micro enterprises in CBRs, particularly in the context of EU focus on service innovation, CBRs, and tourism (see Weidenfeld, 2013).

Most CBRs are heterogeneous in terms of geographical conditions, history, culture, socio-economic conditions, governance, technological trajectories, and institutions (Lundquist & Trippl, 2013; Lundquist & Winther, 2006; Trippl & Maier, 2010). They tend to remain institutionally embedded in their respective national systems, which differ with respect to their economic structures, cultural factors, administrative borders, R&D bases, national institutions, regulatory frameworks, and, consequently, innovation performances and capacity to form an integrated innovation space (Trippl & Maier, 2010). Although these differences hamper knowledge transfer, they also represent sources of innovation by offering potential for new combinations and unexploited synergies (Koschatzky, 2000). Nevertheless, the constituent border regions within most CBRs are institutionally embedded in their respective national innovation systems, rather than functioning as integrated innovation spaces (Trippl & Maier, 2010). Moreover, cross border knowledge transfer through different channels (e.g. labour mobility, co-patenting and co-publications, formal and informal networking, and trade) remain uncommon (Greunz, 2003; Van Gorp, 2009) even when regions share broadly similar economic and technological knowledge. This can be explained by specific socio-institutional conditions, including the extent of formal and informal cultural, social and institutional proximities (Hussler, 2004; Koschatzky, 2000; Trippl & Maier, 2010).

Customers, of all kind, are important sources of service innovation (Alam, 2002; Tether & Hipp, 2002). Consequently, for many small service firms in CBRs, one of the most important sources of knowledge transfer potentially stems from the relatively banal interactions between service managers (or employees) and cross-border customers. This is particularly germane to SMEs in rural communities, which are often less growth oriented and laggardly innovators (Moyes, Whittam, & Ferri, 2012). Knowledge transfers between such businesses are usually relatively minor resulting in mostly incremental innovations. Despite being incremental, they can – individually, but especially cumulatively – provide substantial competitive advantages (Tödtling & Kaufmann, 2001). This paper does not examine innovations, or innovation impacts, per se, but rather the implications of cultural and cognitive aspects for enhancing knowledge transfers, which inform these. All knowledge transfers are influenced by Relational Proximity (RP), but in CBRs, spatial proximity between actors from different national cultures can significantly shape the influence of other non-spatial proximities on innovation (Mattes, 2012). RP between key actors – mostly managers and policy makers - has been shown to constitute a necessary condition for fruitful inter-personal knowledge transfers and facilitating cross border innovation (Lundquist & Trippl, 2013). In contrast, the influence of RP on knowledge transfers and co-learning between managers/owners and customers in the service industries in CBRs has been largely ignored. Consequently, in terms of perceived RP and knowledge transfer, the research question addressed in this study is; how do managers perceive customers form the other side of the border?

By the means of personal interviews, this paper examines Swedish and Finnish managers' perceptions of cross cultural interactions with customers in the adjacent border cities of

Tornio and Haparanda. It aims to provide a fine-grained analysis of how specific elements of perceived Cognitive and Cultural proximity (CCP) serve as barriers and facilitators to actual and potential cross border knowledge transfers between managers and customers from relatively similar cultures in neighbouring border regions. The paper provides an insight into, how managers' perceptions of RPs can influence customer–firm knowledge transfers in CBRs. The paper first outlines a conceptual framework for inter-personal knowledge transfers in cross border innovation systems. Based on this review, seven key perceived elements of CCP between customers and managers are identified, which inform the methodology outlined in the next section, followed by discussion of the findings, and general conclusions.

The role of customers and managers in cross border regional knowledge transfer

Service innovation activities are important for business success and yet complex and difficult to manage, not at least, because they are highly dependent on the skills and knowledge of managers/employees and customers (Howells, & Uyarra, 2007). High level of absorptive capacity is needed in organizations, i.e. ability to value, assimilate and apply new knowledge (Cohen & Levinthal, 1990), which is shaped by individual actors' openness to new knowledge from within and outside the organization and the region (Kallio, Harmaakorpi, & Pihkala, 2010).

Customers (national, international, repeat, ad hoc etc.) represent one important source of such knowledge for firms. Enhanced awareness of customer needs can provide significant market opportunities (Sandén, Matthing, & Edvardsson, 2006) and increase innovation capacity (Mention, 2011). Customers are important catalysts for new services, providing suggestions and feedback, often involving ideas already incubating within firms (Kuusisto & Riepula, 2009). Moreover, customers' innovativeness, in terms of willingness to buy new products has a pivotal influence on the adoption and diffusion of innovation (Akçomak & Ter Weel, 2009; Kallio, et al., 2010).

Learning from, and with, customers is defined as "the process, deeds, and interactions where a service provider collaborates with current (or potential) customers to anticipate and learn customers' latent needs and develop new services" (Sandén et al., 2006, p. 112).). Managers' learning orientation in terms of openness towards customers plays a vital role in developing new ideas and also influences the RP between them (Sinkula, Baker, & Noordewier, 1997; Steenkamp, Hofstede, & Wedel, 1999; Tajeddini, 2011). In CBRs, different, or partly shared, histories, social contexts, languages, beliefs, values, ethnicity, and jurisdictional orders are compounding factors in knowledge transfer and learning, being sources of incompatibility and weak proximities, but also of opportunities.

Relational proximity and cross border knowledge transfer

Proximity is the degree of closeness of actors. The specific type and degree of proximity in knowledge networks, remain empirically understudied (Huber, 2012). RP includes several non-tangible proximities, including cognitive, organizational, social, institutional, cultural and technological proximity (Lundquist & Trippl, 2013). RP as an umbrella encompasses all four of Boschma's (2005) non-tangible dimensions of proximity: cognitive, organizational, social and institutional or cultural (Moodysson & Jonsson, 2007). Their meanings are overlapping and confusing rather than mutually

exclusive and coherent (Lundquist & Trippl, 2013; Mattes, 2012). At the inter-regional scale, proximity is defined as the similarities of two regions in terms of shared behavioural codes, culture, trust, sense of belonging and cooperation capabilities, which influence regional capacity to absorb knowledge spillovers (Basile, Capello, & Caragliu, 2011). These are underpinned by the different types of proximities identified by Boschma (2005).

Cognitive proximity is considered relevant for disentangling the proximity paradox (Broekel & Boschma, 2012; Huber, 2012), which refers to the possibility that both too much proximity and distance might reduce learning and knowledge transfer when actors are too similar or different (Boschma & Frenken, 2010). This is not least because it is considered a pre-requisite for interactive learning processes (Boschma, 2005), and is inherently interwoven with other forms of proximity. Given the focus here on service firm-customer relationships, it is contended that the cognitive and cultural dimensions of RP are particularly important in cross border knowledge transfers (Figure 1). Organizational dimensions are considered less relevant in this case study because they mostly refer to intra-firm relationships (Mattes, 2012; Boschma, 2005). Social proximity, while important in inter- personal communication, is generally not specific to differences between cross border regional actors, and is therefore not central to our analysis.

Insert Figure 1 about here

The technological proximity dimension is perceived as a sub-dimension of cognitive proximity by some scholars (e.g. Boschma, 2005, Gilsing et al., 2008; Huber, 2012) and as a separate dimension by others (e.g. Geutz, 2005, Lundquist and Trippl, 2013; Menzel, 2005). In this paper, they are examined separately to simplify the empirical analysis of the complex knot of relational proximities between CBR customers and managers. The following discussion identifies the key elements (in italics) of the CCP between managers and customers, although recognizing that, in practice, they may overlap.

Cognitive proximity and technological proximity

Cognitive proximity is a precondition for mutual understanding and communication (Huber, 2012) while exerting a critical influence on other types of proximities (Mattes, 2012). The cognitive dimension refers to those resources providing shared representations, interpretations, and understanding according to mental categories that people developed in interaction with their physical and social environments (Thomas, 2008). This can have negative consequences for knowledge transfer. Categorical thinking in an automatic and unreflective fashion leading to predictable outcomes instead of reflective processing, whereby individuals creatively combine/extend internalized cultural and private models to improve their sense making. This is typical of *cognitive conservatism* towards new ideas, and is considered a barrier to knowledge transfer as reflective thinking resulting in new ideas depends on the receiver's ability to apply relevant mental (cultural and private) models (Ringberg & Reihlen, 2008).

Diversity in knowledge, opinion and experience engenders meaningful communication but requires the existence of *shared language*. Shared vocabularies, codes and collective narratives enable efficient exchanges of views, ideas and practices as well as similarity in

ways of thinking about products or technology. Moreover, 'shared narratives' - including myths, stories, and metaphors - provide powerful means for creating, exchanging, and preserving rich sets of meanings and combinations of tacit knowledge (Holt & Macpherson, 2006; Nahapiet & Ghoshal, 1998). However, too much cognitive proximity can lead to lock-in effects and competition, in contrast to cognitive distance which engenders complementarities and interactive learning (Boschma, 2005). Cognitive distance may constrain absorptive capacity because it influences effective knowledge transfer (Broekel & Boschma, 2012) but may engender novel combinations of complementary resources (Gilsing, Nooteboom, Vanhaverbeke, Duysters, & van den Oord, 2008).

Another important element is *mentality*, a theory-driven psychological stance in terms of individuals' attitudes and behaviour in response to new ideas and knowledge. Shared mentality reflects proximity in ways of reacting to new information and ideas emanating, for example, from individuals from the same national culture (Peng & Akutsu, 2001). In this paper, it indicates proximity between managers and customers in terms of thinking and behaviour (e.g. marketing and product preferences). When it comes to *provision of specific details*, customers of collectivist cultures outperform those of individualist cultures (Hofstede, 2001).

Technological proximity is defined as the understanding of shared technological knowledge amongst actors, for example knowledge of techniques, technologies and markets (Menzel, 2005). It enables learning, particularly in terms of actors utilising similar technical language (Huber, 2012). It is considered a sub-dimension of cognitive proximity by some researchers (e.g. Boschma, 2005; Gilsing et al., 2008; Broekel and Boschma, 2012) and is positively related to functional disciplines such as marketing, production and engineering (Gilsing et al., 2008). At the regional level it is defined as "…proximity of regions whose technological profiles are similar to its own" (Greunz, 2003, p. 657). Knowledge spillovers are expected to be higher between regions with similar technological profiles (Greunz, 2003). Although studied at the inter-firm level, technological proximity between managers and customers in terms of *using similar technologies and tools*, and their shared understanding, remain understudied, particularly in CBRs.

Cultural proximity

Culture is a set of interrelated common rules, norms, conventions, interpretation schemes, values, perception, thoughts and feelings which guide behaviour within a group. Cultural proximity or similarity refers to sharing tacit background and ideology, adoption of similar ways of thinking, behaving, and deciding, while also facilitating intra-cultural exchanges of opinion. It is often assumed but rarely empirically measured (Ibert, 2010; Kaasa & Vadi, 2010). Knowledge understood differently by the provider and receiver depending on levels of cultural proximity (Hussler, 2004) can incur costs and risks, increases (Bjorkman, Stahl, & Vaara, 2007). It invokes stereotypes and a confrontation of 'us versus them' (Vaara, Sarala, Stahl, & Björkman, 2012), which is important in the following analysis.

Cultural dissimilarity can induce innovative tension, and stimulate mutual learning, as divergence can lead to constructive controversy, which requires negotiation of differences and direct social interaction, and is a key to innovation (Auer-Rizzi & Berry, 2000; Ibert, 2010; Javidan, Stahl, Biodbeck, & Wilderom, 2005). Customers' *ways of solving problems* may also differ between national cultures depending on their cultural similarity. Product and service development is, at its core, a problem-solving process, which often consists of trial and error, involving user innovation (Hippel, 2005).

Cultural *values* may have a direct influence on individual behaviour, attitudes and actions. Therefore, service managers' cultural orientation and values may determine the way they develop new services (Alam, 2010). In summary, cultural proximity is determined by the convergence/divergence of publicly shared values, worldviews or interpretation schemes (Ibert, 2010). Willingness to accept the need for, and be open-minded about, change and learning from foreign cultures, are important for a firm's learning orientation, encouraging managers to 'open-up' or adopt to external knowledge (Akçomak & Ter Weel, 2009; Steenkamp et al., 1999; Tajeddini, 2011).

Cultural and Cognitive proximity between Swedish and Finnish cultures

A common history, similar institutional structures and geographical proximity, and high cultural and institutional proximity exist between Finnish and Swedish societies (Vaara, 2000). Several studies on perceived cultural differences and stereotypes between Swedes and Finns, and their influence on inter-cultural communications and collaboration (Auer-Rizzi & Berry, 2000; Paasi & Prokkola, 2008; Vaara, 2000; Smallbone, 2006), have demonstrated the usefulness of Hofstede's (1980) 'power distance' and 'uncertainty avoidance' dimensions. Swedes have a slightly lower score than Finns in 'uncertainty avoidance' and lower scores in 'power distance' (Vaara, 2000). These studies identified the following 7 elements of CCP as being important: conservatism, language, mentality, use of similar technologies or tools, ways of solving problems, provision of specific details, and values.

In terms of c*onservatism* and *language*, Finns perceive Swedes as being more extrovert (Jukarainen, 2005) and less 'uncertainty avoidant', while Swedes perceive Finns as being conservative, less open-minded and more resistant to change (Vaara, 2000). For the current study, this suggests that Finnish customers' ideas are more likely to be perceived as being conservative by Swedish managers, while Finnish managers are expected to be less likely to perceive Swedish customers' ideas as conservative. In terms of m*entality*, Finns are perceived as being more straightforward, rapid decision makers, following the lead provided by authorities, emphasising managers' responsibility in decision making and challenging controversial issues, but less democratic than Swedes (Auer-RizziK & Berry, 2000; Paasi and Prokkola, 2008; Vaara, 2000; Smallbone, 2006). It is also assumed that for customers, individualist cultures are more apt to absorb and diffuse imported technology than are collectivist cultures (Kedia & Bhagat, 1988). Therefore, knowledge and use of technology is assumed to be influenced by a collectivist society's preference for using its own technologies, and familiarity with a narrower range of tools, compared to more individualist and less conservative societies. As Finnish culture is considered to be more collectivist than Swedish, Finnish customers and managers are more likely to use *tools and technologies* that are familiar in Finland.

In terms of *solving problems*, Swedes are perceived by Finns as having a more individualistic and horizontal culture in general, more democratic, less effective decision makers, and placing more emphasis on consensus building, discussion, diversity of views, polite phrasing and avoiding controversial issues (Auer-Rizzi and Berry, 2000; Paasi and Prokkola, 2008; Vaara, 2000; Smallbone, 2006). When it comes to *provision of specific details*, customers of collectivist cultures outperform those of individualist cultures (Hofstede, 2001). In terms of v*alues*, compared to Swedes, Finns are perceived as more authoritarian, straightforward, less democratic, giving less emphasis to consensus building, discussion and diversity of views, and more typical of collective-vertical cultures.

Study area and research methods

In two remote adjoining border regions in countries which share broad cultural and economic similarities, the neighbouring towns of Tornio (Finland) and Haparanda (Sweden) in the southern part of the Tornio River Valley, which is located in the centre of the North Calotte region. The valley represents an EU CBR with open borders and high levels of spatial proximity (Figure 2), cross border mobilities with banal daily interactions including intense commuting (Paasi and Prokkola, 2008; Ruotsala, 2009). It has historically been a contested ‘‘borderless’’ land where different cultures coexist creating dynamic process of interactions between cross border identities (Prokkola 2008). The two neighbouring regions have a small population of some 25,000 inhabitants, a third of whom live in Haparanda region (Ruotsala, 2009), distributed at low densities over a large area (Ruotsala, 2009; Lundén and Zalamans, 2001; Smallbone, 2006).

Insert Figure 2 about here

The two cities are administratively run more like one, declared Eurocity (or a twin city), and cooperate in joint transnational integration projects (Jukarainen, 2005). There are four main groups: two mono-cultural majority groups (Swedish and Finnish), and bilingual and bicultural minority groups living on both sides and of the border (Lundén and Zalamans, 2001).

Following the literature review on the factors affecting knowledge transfer between different national cultures in general and cultural differences between Swedish and Finnish cultures, the most relevant elements which may influence knowledge transfer in the Finnish and Swedish border context were identified. In addition, a pilot exploratory approach was also undertaken for identifying the final selection of the most relevant elements. Informal interviews were undertaken with several Swedish and Finnish actors from both border regions, including 3 shoppers, 5 shop managers, 2 academics from the local higher education institutes and 4 officers from local and regional authorities. The interviewees expressed their own cultural views on the topic in their own terms, which avoided potential problems of misinterpretation and loss of relevant data (Wilkesmann et al., 2009). Open questions (e.g. ‘what influences learning between people from both sides of the border’) help to reveal the relevance of national stereotypes in the perceptions of different types of proximity. Subsequently, a literature review on the impact of such stereotypes on cognitive and cultural proximity was undertaken (see previous section) and considered in both the theoretical discussion and data analysis. These interviews contributed to refining the methodology so as to focus on the most relevant elements of proximity.

The pilot study confirmed the need for a qualitative approach (semi-structured interviews) to understanding cognitive and cultural proximities, the constitutive elements of which are often blurred and overlapping. This was reinforced by the need to tease out how national stereotypes influence individual managers’ perceptions of proximity between themselves and their customers. For the main study, interviewees were randomly selected from the most up-to-date comprehensive lists of service SMEs, provided by the city municipalities, including 169 businesses in Haparanda and 320 in Tornio. The sample was divided equally between

the two towns and focused on businesses located in close spatial proximity to the border. It targeted businesses managers from the service sub sectors of catering, retail, leisure, tourism and accommodation, because they are characterised by daily interactions with cross border customers and therefore are more influenced by barriers of cross cultural communication (Table 1). In cases of refusal, a manager of a similar type, and geographically proximate, was approached. A sample of 24 managers (12 from Tornio and 12 from Haparanda) were invited to be interviewed, of whom 9 from Tornio (culturally Finnish) and 10 from Haparanda (7 culturally Swedish and 3 mixed) consented. The lack of mixed culture interviewees in Tornio is consistent with the more culturally homogenous population in Tornio (see Lundén and Zalamans, 2001). Interviews were undertaken between June and August 2011. Interviewees' ages varied from 38 to 60, with most having at least some form of higher education and almost one half having at least 10 years of experience in the business. Virtually all the businesses employ 1 to 50 members of staff, with most employing a maximum of 5 full-time employees.

Insert Table 1 about here

Semi-structured in-depth interviews including both pre-planned questions and open ended questions allowed respondents to talk about examples from their own experiences (Creswell, 2012). Interviews lasted between 25 to 90 minutes, were recorded and transcribed in their original language to reduce difficulties associated with translation and interpretation of verbatim data, and then translated into English by a bilingual researcher. The involvement of more than one person reduced the chance of losing subtle expressions of opinions in the course of transcription and translation (Liamputtong, 2010) but increased the costs, contributing to a decision to restrict the number of interviews. Even within 19 interviews, the similarities in many responses indicated that saturation was approached.

The first part included information on the nature of the business and the interviewee (e.g. number of employees, age, experience, cultural affiliation). The second part included an open-ended question, asking managers to choose people from any possible location and culture (assuming no language barriers), whom they would invite for a hypothetical meeting to discuss ideas about service improvement in their business, and to explain the reasons for their selection. This was particularly important for understanding the importance that managers attached to different elements of RP. It also included a more specific question about whether Finnish and Swedish people in general, and customers or managers in particular, think, describe and discuss ideas differently. For both questions, managers were encouraged to exemplify their answers.

In the third part, the 7 elements of cognitive and cultural proximity discussed by other researchers and vaguely discerned in the exploratory interviews, as influencing cross border learning interactions, were examined. Managers were asked how each element influenced their learning interaction with cross border customers, and to explain their views. The fourth part allowed the interviewees to express their views freely on any aspect of the topic. Direct or deductive content analysis was used for validating and extending knowledge, with the literature being used to pre-determine the initial coding. The data analysis included highlighting all text, which may represent elements of dimensions of CCP extracted from open-ended questions, followed by their coding using predetermined codes (Hsieh and

Shannon, 2005). Particular attention was given to perceptions (and stereotypes) as potentially informing knowledge transfers.

The managers' perception of the impact of cognitive and cultural proximities on cross border knowledge transfer

Most managers had strong opinions on at least one of the seven elements of CCP with customers from the other culture. They also highlighted the importance of historical trajectories, which is indirectly related to shared language. However, some interviewees could not explain their arguments, but preferred to discuss more general intercultural communication of new ideas: these views are reported here as indicative of their perceptions of customers from other cultures. One of the seven elements did not receive any additional comments from the interviewees: A similar number (three) of managers from each culture considered there were no real differences between Finnish/Swedish customers, and one Finnish manager 'complained' that there was too much similarity which hindered innovation.

Mentality

Six interviewees referred to mentality in general and three of these explained that ways of thinking, and of reacting to new information and ideas (Peng and Akutsu, 2001), reflected differences between the two national cultures: *"They (Swedes) have long, long meetings until all aspects have come up with conclusions, so that all members are committed and understanding of the conclusions and then they start up implementation…. In Sweden, if you make mistakes, it is not the end of the world, because you are doing something, but in Finland, you would lose your social status directly"* (Finnish tourism and event marketing manager). Another Finnish leisure business manager described differences in reactions: *"…when it comes to how we are inspired to work, Swedes become so much involved whereas Finns remain calm",* and in the nature of their ideas: *"usually you get more unique ideas from Swedes, and more practical ideas from the Finns…"*. The process of ideation also *differed "in terms of thinking and coming up with new ideas, Finns are slower thinkers and Swedes are slow decision-makers"* (Finnish Tourism business manager). One interviewee exemplified how Finnish mentality regarding service delivery had 'crossed' the border and influenced a new service development in a tourism facility (tourism business manager):

> *"The Finnish customers were dissatisfied with the dressing rooms. So next year we are going to build new dressing rooms based on Finnish market's requirements, which has to be relaxing … and functional".*

Knowledge transfer relies on managers' ability to reflect, decide and apply relevant mental (cultural and private) models and succeed through considering new ideas based on old knowledge (Peng and Akutsu, 2001; Ringberg and Reihlen, 2008). However, in the same tourism facility, different mental cultures induced 'innovative tension' between customers´ preferences and the need to provide a high quality product, which shapes service development:

> *"…when we did what they [Finns] want, there was a mishap because they were dissatisfied ... we did it in our way because our quality of the product we serve is more important than the culture. Sometimes we listen to them and we get small improvements, sometimes we don't … our biggest challenge is putting the*

business plan together to fit in the Swedish and Finnish market as one product". (Swedish manager)

In cross border regional context with different mentality structures, customers' ideas are particularly treated with caution by managers while considering them as appropriate and feasible for innovations. This was a barrier, which was viewed from more than half of the Swedish managers, who were either skeptical or decisive against ideas from Finnish customers. On the contrary, most Finnish managers in the study were more positive towards ideas from Swedish customers. Swedish customers were often perceived as bringing up radical (and sometimes 'strange') ideas in comparison to the Finns who only provided practical ideas, which were considered 'boring' or not feasible. It appeared that both Swedish and Finnish companies were not keen on implementing ideas of cross border customers.

Conservatism

Swedish managers and customers were perceived as being more 'open-minded' and less conservative than their Finnish counterparts by five interviewees (Swedish and Finnish). Being open-minded and willing to recognize the need for change is pivotal for learning orientation and adoption of external knowledge (Tajeddini, 2011; Steenkamp et al., 1999). For example,

> *"the Swedish side [of the border] is more innovative because they [managers and customers] are more open in innovation. It does not mean they have more ideas. In Finland you have to work more to get ideas out" (Finnish event marketing manager).*

Another interviewee, a Finnish retail store manager, explained how cross border proximity was considered a regional competitive advantage for overcoming Finnish conservatism:

> *"…we live so near, and we have these Swedish influences, which means, for example, in fashion, we need to get the things faster here (meaning trendy) for sale and we are more free to try out the first thing. 20-30 years ago, fashion started from the Swedish side, almost a year later, it came from southern Finland [the headquarter], but we already knew it here …".*

This shows how more conservative values on one side of the border influenced behaviour with respect to novelty, such as adoption of new products (Kaasa and Vadi, 2010; Steenkamp et al., 1999; Tajeddini, 2011). This implies that firms and companies operating close to innovative border regions can tap in new trends before the rest of the country. Differences between cross border cultures affect the direction in which ideas flow between cross border regions. Whereas ideas are more likely to flow from the more innovative Swedish regions to Finland by cross border Swedish customers, conservative Finnish managers may not easily open up towards such ideas, discuss their thoughts openly and adopt them. This, to some extent, constrains innovative processes as the outcomes of such flows of ideas.

Shared language

The use of a foreign language to engage with customers from the other CBR was mentioned by six interviewees as *"…a barrier for some customers to express their opinions, especially Finns face problems talking other languages although they are pretty good at languages"*

(Finnish cultural service business manager). Communicating in a foreign language does not allow the use of similar and familiar nuances, codes, narratives and vocabulary, which enables efficient exchange of views, ideas and practices between individuals and communities' through discussions (Holt and Macpherson, 2006; Nahapiet and Ghoshal, 1998). For example, *"in Sweden we say 'you' to all, in Finland they say 'Sir/Madam'. There is more focus on titles in Finland, more 'authority'-oriented. In Sweden you say 'you' to people you even do not know"* (A Swedish specialised service business manager). It appears from the interviews that customer closeness, so important for knowledge transfer, is conditioned by the language in use. Swedish managers seem to be much "closer" to the customers than the Finnish ones, leveling our hierarchical structures (we the managers, they, the customers) by using a somewhat more informal language (used among friends) and emphasize that "we together" will find a solution to the customers' needs.

Bilingual managers have clear advantages in discussing ideas with customers. A Finnish tourism and event marketing manager argues that *"even if the idea itself is important, and I describe it in Swedish, all who are present can understand the nuances without unnecessary doubts or any bad feelings for not understanding".* However, even bilingual managers in CBRs can be challenged:

> *"I am a mixed person. But still, I don't know every name on every subject in the shop. In Sweden we call something a pencil, in Finland something else. There are very much special words for specific items which I am still learning. When Finnish customers have a need for something and I don't understand what they are talking about, we must talk and talk and talk. So I get the idea by showing the catalogue [to get a common understanding]" (Swedish retail store manager).*

To get closer to the customers, recruitment of native speakers was suggested by a Swedish tourism business manager. Shared narratives including myths, stories, and metaphors, which provide powerful means in creating, exchanging, preserving and combining of different forms of knowledge, including tacit, are also considered as 'shared language' between actors (Holt & Macpherson, 2006; Nahapiet & Ghoshal, 1998). The inferiority complex of Finns towards the Swedes, referred to as 'a little brother complex', is linked to particular historical readings and popularly manifested in Finn's envy of Swedes as being more extrovert, better ice hockey players, musicians and more sensitive and complex rather than strong, deterministic or coherent (Jukarainen, 2005). Differences in the perceptions and narratives of historical trajectories were viewed by two managers as relevant to knowledge transfer.

> *"Finns have a darker history, wars, etc. and have struggled more than the Swedes. They can complain about something, e.g. food, but they don't tell what it is. In the restaurant you say the meat is not rare ... the meat is not good, but do not specify what is not good. ... they don't do that because they have been in war for many years... they have the war, the mines, so you should not complain too much because you should be lucky to have food on your plate..."(Swedish tourism business manager).*

A Swedish manager complained about the Finnish customers' inability to explain service dissatisfaction, which he thinks is a symptom of vague reference points for evaluation. The relevance of history for benchmarking is also stressed by a Finnish manager, who claims that Finns find reference points in their neighborhood, not in a global context, as the

Swedes. This could lead to reliance more on external than internal sources of knowledge (Hussler, 2004), which means that there is a greater potential for the transfer of knowledge from Sweden to Finland than vice versa Another view from a Finnish tourism and even marketing manager provides further support for this argument:

> *"Finland is a younger than Sweden, which has been one nation for longer … so they are still kind of tribes fighting each other; 'I am not telling you [i.e. telling the other 'tribe'] everything, because you can get better than me…. Swedes also compete, but Swedes compete side by side with the rest of the world, and Finns compete against each other, which is stupid"*.

This suggests that Finns are more likely to exchange fewer ideas among themselves due to perceptions of internal competition i.e. competition between Finnish companies and individuals. Arguably, this might derive from strongly hierarchical structures and over rigid control, typical of more masculine societies. A shared language is important for inter-personal communication and knowledge transfer between customers and managers. The Finnish customers' ability to share ideas with Swedish managers may be inhibited by lack of shared language. This is particularly the case for Swedish cross border individuals who are less likely to speak Finnish as many Finns learn Swedish at schools.

Use of similar technologies or tools

Evidence of the impact of technological proximity between Swedes and Finns was given by two Swedish managers. A Swedish retail manager mentioned that *'if you have a new machine, a brand or something, for example, Makita, a screwdriver, and you try to sell something else, they [Finns] don't want it. Swedes are more flexible and test new technologies"*. The second, a Finnish restaurant manager, mentioned that Finns would never use Swedish technology, such as Ericsson mobile phones, and would always chose Nokia, perhaps as an act of patriotism (when Nokia mobile phones were produced). Resistance to use technologies from other cultures might also be explained by differences in, and access to service support systems and warranty regulations, aspects which might hamper the development of CBR innovation systems.. These findings do also provide some support for the importance of technological proximity between customers and managers, and the argument that Finnish society is more collectivistic, conservative and familiar with fewer technologies and tools than the Swedish one. This may constrain Swedish managers when trying to draw some ideas from Finnish customers, who do not tend to use other technologies than Finnish.

Specific or contextualised details

Managers and customers from more collectivist cultures are perceived as providing more specific and contextualised details than those from individualist cultures (Hofstede, 2001; Yalcinkaya, 2008; Bhagat et al., 2002; Steenkamp et al., 1999). This was mentioned by three Finnish managers and one Swedish manager, who viewed Finns as being more specific and focused, and more collectivist than Swedes when discussing ideas, and therefore as being more practical; *"It is easier to talk with Swedish customers, you can chat with them…with Finns, you have to be more direct, less gossiping"* (Finnish leisure business manager). He continues *"in a meeting, they [Swedes] talk, talk, talk, and try to look at things from all perspectives (tourism and event marketing manager) and have the culture of 'discussing' without telling their opinions*".

The Finns were perceived as being *"... more direct, they do and then think"* (Finnish Tourism business manager) and answer questions rather than speak spontaneously. *"They speak much more if asked questions…so it is important to formulate questions to Finns"* (tourism and event marketing manager). A Finnish café manager also mentioned that

> *"I get more practical ideas from Finns. Finns comment on what they see. If they see bread, they could say right away, can you put some cheese on the bread. Swedes just say: 'do you have something else'? And if I ask them what you would like to have, they answered: I don't know, something sweet'. Finns would just say, I would like to have cheese".*

A Swedish retail store manager describes his interaction with his customers: *"I can say to the Swedish customer 'no, it's not possible'. The Finnish customer wants a more detailed answer than no – while the Swedish customer is more satisfied with the shorter answer"*. These findings indicate how Swedish managers could benefit from listening to Finnish customers, and how Finnish managers should be prepared to ask follow-up questions for more detailed information. This difference may benefit Swedish managers because Finnish customers are more likely to challenge problems and issues than Swedes. These may be helpful for having a more detailed and helpful view that helps to solve problems and innovate. By contrast, for Finnish managers, the lack of contextualized and detailed discussions is unlikely to contribute to innovation stemming from a solving problem process.

Ways of solving problems

A Swedish retail store manager described his perception of how Swedish managers and Finnish customers viewed the speed of change differently. He explains how his assortment is based on an agreement among all those store managers belonging to the same retail chain. This implies that if *"customers from Finland come and ask why I don't have this jacket in gray ... I have to explain that how our collection is created",* and that it might be impossible to get the jacket in that particular color. He continues discussing the relevance of planning *"I have to plan first, before I start to create' and the Finns would say 'you can plan it while you are creating it'"*. Another tourism and event marketing manager referred specifically to the difference in ideation processes and approach to its implementation by the two national cultures, which is explicitly related to customers' role in new service product development: *"Finns are a straightforward culture and they want to implement [new ideas] when only half way planning is done through trial and error"*.

These differences may benefit both Finnish and Swedish managers. Being encouraged to work faster and use 'trial and error' approach to problem solving may accelerate innovative processes among Swedish businesses, which may end up being too lengthy as a result of Swedish tendency for lengthy discussions and ideation. Finnish managers may benefit from being provided with more novel ideas as a result of in-depth discussions with Swedish customers if they have a willingness to engage in deeper conversations (which is not necessarily the case).

The insights into each of the above elements, excluding 'values', are summarized in Table 2. Although the interviews did not provide much commentary on this aspect, the tendency of Finns to diverge amongst themselves less in 'values' than Swedes, partly explain differences in their perceived proximity.

Insert Table 2 about here

Conclusions

This paper seeks to advance our understanding of the nature and potential impact of RP on knowledge transfer between managers of service businesses and customers from what are often implicitly dismissed in cross-border regional economic strategies as the banal mobilities of cross border customers. It focuses on the perceptions of CCP of Swedish and Finnish managers from Tornio-Haparanda and their implications for encouraging knowledge transfer between actors in the Sweden-Finland border. Since RP between key actors in CBRs is considered to be an important mediator of fruitful inter-personal knowledge transfer, the lack of research on the influence of different dimensions of RP is a surprising gap, and one that is crucial for understanding cross border innovation (Lundquist & Trippl, 2013; Trippl & Maier, 2010). Learning and knowledge exchange are particularly germane to CBRs with a higher potential for cultural interactions resulting in innovation. It is important to re-emphasise that the focus is on the role of RP rather than on knowledge transfer per se, let alone any resulting innovations.

Qualitative data from semi-structured in-depth interviews were used to examine managers' market and learning orientations, and their perceptions of how seven elements of RP influenced, or potentially influenced, the role of customers' as a source of new ideas. Some evidence was found for the importance of all of these constructs, except for ´values' and an additional element, differences in historical trajectories was identified. Although, to some extent, these perceptions reflect national stereotyping rather than 'real' proximity differences, the former are critical in influencing how managers approach knowledge transfer from customers.

Finnish and Swedish managers perceive themselves differently in respect of mutual knowledge exchange with cross border customers. Finns are perceived more as fast thinkers and quick to respond to more practical ideas, whereas the longer and more thorough deliberations of Swedes were considered to result in more distinctive ideas. The fact that Finnish customers are also perceived as being more likely to use their own national technologies and reluctance to adopt new technologies can affect cross border diffusion of technological knowledge from Sweden to Finland and possibly the learning orientation of Finnish managers. It is therefore plausible that technological knowledge is more likely to flow faster and earlier from Finland to Sweden than vice versa. Language, including shared vocabulary, codes and collective narratives, was mostly perceived to be germane to learning, and understanding customers' feedback and suggestions. The 'provision of sufficiently detailed ideas' was considered more important by Finnish managers, who expressed having difficulties in absorbing new ideas from Swedes. The Swedish tendency to deploy less contextualised ideas was perceived as more individualist culture, compared to the more collectivist Finns, which was considered to be an important barrier. Proximity between managers and customers in 'Ways of solving problems' in service product development, is pivotal. The Finnish approach of trial and error, compared to Swedes' longer planning and pre-calculated process, constituted a perceived barrier to Swedish managers' joint ideation and implementation of new product development. The differences between the historical trajectories of cross border actors, including shared narratives,

emerged as influential on knowledge transfer in terms of a Finnish sense of inferiority towards Swedes and traces of Finnish trepidation.

The fine-grained analysis of how specific elements of perceived Cognitive and Cultural proximity either engender or constrain cross border knowledge transfer between customers and managers is summarized in Table 3.

Insert Table 3 about here

It shows that Finnish managers could benefit more than the Swedish managers from the banal practices of cross-border mobility as long as they are willing to compromise their conservative mentality for more open mindedness towards different ideas. The perceived effects of relational proximity in terms of CCP on knowledge transfer have different implications for service innovation processes. For Swedish managers the challenge resides in involving and enticing Finnish customers into face-to-face discussions, whereas the Finnish managers struggle for receiving more detailed ideas to be able to exploit them for innovative processes

This study has limitations stemming from its focus on the two main dominant cultures in one CBR, and the broad scope of its contextualisation. It necessarily may have missed the intervention of other non-cross-border-related elements of RP, such as social proximity including inter-personal differences between individuals and managers' tendency to perceive their customers as similar and positive rather than different. Further studies in other CBRs, employing other research methods, are required to confirm the exploratory findings and determine which elements, and at which levels of proximity, hamper or facilitate cross-border knowledge transfer. Second, further attention should be given to subcultures, such as Sami culture and mixed cultures, considering their distinctive patterns of dispositions and behaviours and cross cultural interactions. Third, there is a need to understand how RP-influenced knowledge transfer contributes to innovation as the ultimate concerns of policy makers and enterprises.

Despite the limitations, six out of the seven elements of CCP examined including historical trajectories are relevant for learning between cross border actors: managers and customers. The study also indicates that understanding cross border knowledge transfers requires a fine grained analysis of RP between similar neighbouring national cultures. Two questions derive from this study. First, whether and how do differing levels and combinations of these specific elements determine the extent of knowledge transfer and ideation between actors in CBRs? Second, to what extent do cultural differences determine whether a particular cross-border cultural mix, in terms of the learning and marketing orientations of service managers and innovativeness of its customers, is more likely to be 'imitative' or creative?

Three main policy implications can be drawn from this study. First, the importance of cognitive and cultural distance, which is often deeply embedded in national stereotyping, underline the limitations to more technocratic and top-down approaches to cross-border regional initiatives. Secondly, while the service innovation literature has paid increasing importance to the role of consumers as sources of innovation, there can be significant barriers to realising these in cross border regions, where the scope for cross-cultural learning from everyday cross-border customer mobility is particularly significant. Thirdly, these barriers may be overcome by a policy mix including practical measures such as translation assistance as well as educational and training policies orientated particularly to

enhancing cultural communication skills and countering stereotypes.

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Figure 1. Dimensions of *relational proximity influencing cross border knowledge transfer*

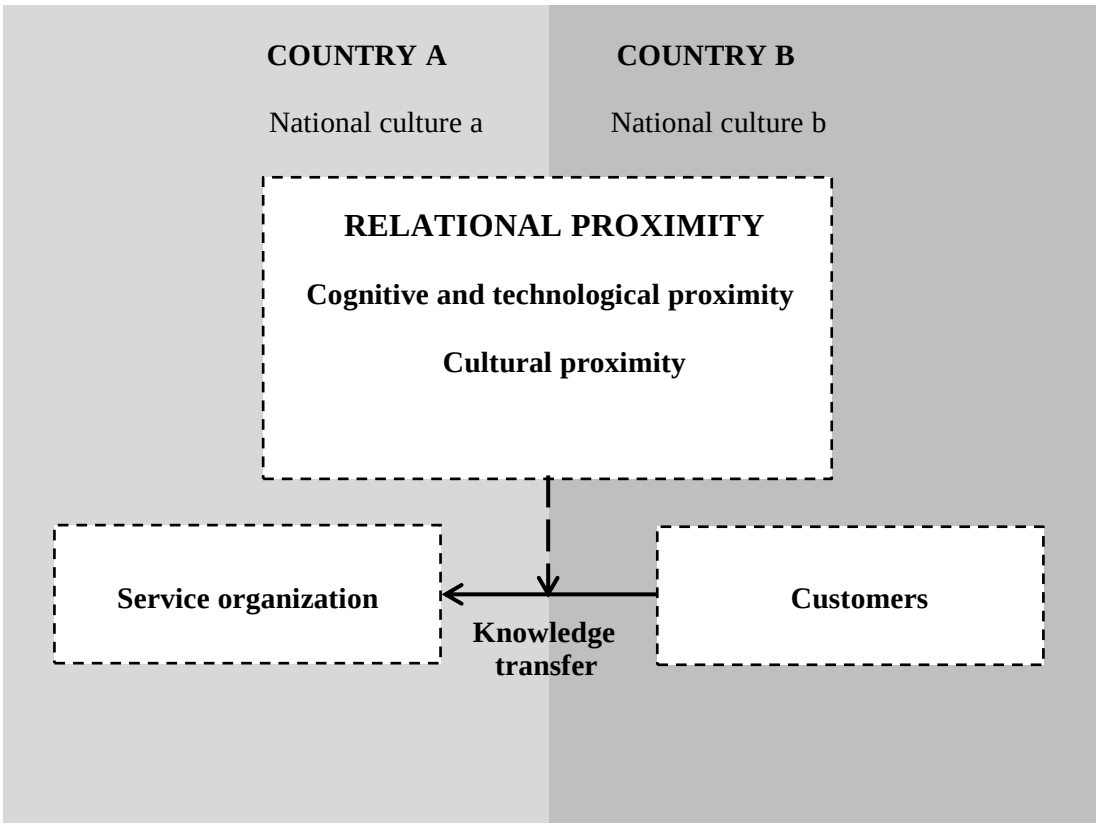

Figure 2. HaparandaTornio in the Tornea valley

Source: ArcGIS Online

Table 1. *Sampled service SMEs in Tornio and Haparanda.*

Towns		**Type of Businesses**
Haparanda (Sweden)	**Tornio** (Finland)	
4	1	Retail (mainly shops)
2	3	Catering (restaurants, cafes)
3	3	Tourism, leisure and transport (e.g. hotels, bars, clubs, spa, taxi)
1	2	Other (personal and professional, e.g. optician, barbers, gym)
10	9	Total

Table 2. *Characteristics and elements of cultural and cognitive proximity between Swedish and Finnish cultures in TornioHaparanda.*

Perceived cognitive or cultural distance		**Element**	
Swedish	Finnish		
None	None	Cultural proximity	Values
Managers' open-mindedness of and higher customers' innovativeness	Conservatism towards new ideas	Cultural proximity	Conservatism
None	Codes, nuances, shared vocabulary	Cultural proximity	Shared Language
Long ideation process; conversational and democratic resulting in unique ideas	Authoritarian, straightforward ideation process resulting in practical ideas	Cognitive Proximity	Mentality
Open-mindedness, higher innovativeness	Insular approach reducing customers' innovativeness	Cognitive Proximity	Technology
Discussing ideas more broadly and out-of-context (collectivist cultures).	Seeking detailed and contextualised information and ideas, answering specific questions and (collectivist cultures)	Cognitive Proximity	Provision of specific and contextualised details
Slower perception of speed of change	Faster perception of Speed of change, and trial and error	Cognitive Proximity	Ways of solving problems

Table 3 *Perceived effects of Cognitive and Cultural proximities on cross border knowledge transfer between Swedish and Finnish customers and managers*

Implications of Perceived Cognitive and Cultural proximities for cross border knowledge transfer between managers and customers			
Elements of cognitive and cultural proximity	**Managers**	**Effects on knowledge transfer**	**Cultural and cognitive differences between Swedish and Finnish cultures**
Mentality	Finnish	Advantage	Finnish managers receive more radical ideas from more open mnded and talkative Swedish customers
	Swedish	disadvantage	Finnish customers provide functional ideas for incremental development (only)
Conservatism	Finnish	advantage	Finnish managers receive more original and innovative ideas from Swedish customers
	Swedish	disadvantage	Swedish managers receive more conservative ideas from Finnish customers
Shared language	Finnish	Disadvantage	Very low levels of Finnish language proficiency among Swedish customers
	Swedish	Disadvantage	Higher levels of Swedish language proficiency among Finnish customers (than among Swedish customers)
Use of technology	Finnish	none	None
	Swedish	disadvantage	Insular approach to knowledge and use of foreign technology by Finnish customers
Contextual details	Finnish	Disadvantage	Lack of detailed discussion with Swedish customers
	Swedish	Advantage	More detailed discussion can help ideation
Solving problems	Finnish	Advantage	Benefit from novel ideas provided by Swedish customers
	Swedish	Advantage	Accelerate innovation processes by undertaking a faster and more practice-based ‘trial and error’ approach to product development