



When purchasing professional services supports innovation



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ABSTRACT

This paper explores the potential contribution that purchasing KIBS may have on innovation at the buying firm. It integrates the results of a systematic literature review on purchasing KIBS with literatures respectively on purchasing and KIBS contribution to innovation. Based on the outcomes of an extensive study of the literature, a theoretical framework is proposed in order to understand what could boost innovation outcomes of purchasing KIBS, especially for the buying firms. The framework suggests observing the KIBS triad configuration, i.e. the relationship between KIBS providers, the purchasing function and the user area within the buying firm, and its contingencies and characteristics. Overall, the paper suggests that the way KIBS are purchased can influence their effect on the innovation they generate, offers insights on aspects that need to be considered to increase potential innovation outcomes, and draws attention to the strategic role that purchasing can play in this context. In this way, it moves beyond the debate on purchasing involvement in NPD (new product development) and shows another domain (KIBS services) in which purchasing can contribute to the development of innovation.

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1. Introduction

Over the past decades, various scholars, marketers and policy makers have contended that two main aspects characterize contemporary economy: knowledge dependence and outsourcing.

In the knowledge-based economy we live in nowadays (Drucker, 1999), value creation, technical and scientific advance (Powell & Snellman, 2004), and innovation opportunities rely greatly on intellectual capabilities and knowledge. Such capabilities and knowledge bases are so diverse and fast-changing that firms increasingly opt to expand the scope of their outsourcing activities and move out of a model where knowledge, technologies and competencies are developed based on internal R&D to obtain them from a network of collaborating partners (Chesbrough, 2003).

Professional services or KIBS (Knowledge Intensive Business Services), have a crucial role in this context, as they can be key sources of intellectual value-added capabilities and innovation for their customers. KIBS are complex services provided to other firms and public organizations by firms that employ a highly qualified work force (Muller, 2001; Muller & Doloreux, 2009). The knowledge and experience embodied in human capital are the main resources of KIBS firms (Muller & Doloreux, 2009) and are used to provide professional judgement and/or deliver new knowledge, technologies, products and services to customers (He & Wong, 2009; Hertog, 2000). In addition, KIBS deliveries necessarily

involve a design or consulting effort that is followed by a stage in which the offering is implemented. Both stages, but especially the earlier one, are marked by high levels of creativity and interaction between buyers and providers (Lehrer, Ordanini, DeFillippi, & Miozzo, 2012). These conditions create a fruitful environment for the creation and exchange of knowledge and ideas (Hertog, 2000; Muller & Zenker, 2001) that, in its turn, can lead to additional gains and emergent innovation.²

KIBS can take a variety of forms and be classified into 1) advisory services, such as legal activities, book-keeping and auditing activities, market research, business and management activities; and 2) technical services, such as computer-related activities, engineering and architectural activities, technical testing and analysis (Koschatzky & Zenker, 1999). Advisory services are also commonly named “professional services” or professional KIBS (p-KIBS) and seen as intensive users of technology, such it is the case for marketing or advertising services (Miles et al., 1995). Technical services, on the other hand, are also known as “new technology-based services” or technology-KIBS (t-KIBS) and are distinguished from professional services because they do not simply use but also develop and carry technology, such as in the case of software design and other computer-related activities (Miles et al., 1995) (see Appendix A for an example of KIBS classification).

² Given KIBS characteristics, they can be considered complex purchases (c.f. Dhar, Menon, & Maach, 2004). However, not all complex purchases are KIBS. KIBS deliveries necessarily involve a design or consulting service (see Santos (2013) for detailed definition of KIBS). Some purchases are complex, because they require high investments, have several implementation stages, and involve multiple constituencies, but do not involve design efforts and thus cannot be considered KIBS.

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The background presented helps to understand why KIBS represent one of the fastest-growing sectors (7% in value in 2013) of world trade (WTO, 2014) and are considered as one of the main engines for future growth within the European Union (European Commission, 2007: 7). “The four main regulated professions (legal, accounting, architectural and engineering) represent, on average, 5.3% of EU total value added and 10% of EU market services value added” (Canton, Ciriaci, & Solera, 2014, p. 13). KIBS services globally generate annual sales in excess of \$3 trillion, they represent 7 to 8% of total service sector revenue in advanced economies and about 3% of all revenue globally (McKinsey Global Institute, 2012).

Purchasing KIBS is becoming an activity increasingly common in companies. This is in line with the general outsourcing trend according to which the value that stems from the supply chain counts approximately 80% in many industries with an outsourcing ratio for companies which often overcomes 90% (Johnsen, Howard, & Miemczyk, 2014). As a consequence, there is a growing body of literature on purchasing KIBS. Research in this field has highlighted the peculiarities and specific challenges characterizing the purchasing of such services. Purchasing KIBS, it has been argued, involves a variety of risks due to the credence/experience nature of KIBS (Day & Barksdale, 1994; Geisler & Hoang, 1992; Wittreich, 1966). Moreover, the relevance of the relational rather than transactional aspects in purchasing KIBS has been highlighted (Sonmez & Moorhouse, 2010) with a lot of attention devoted to the controversial role of the purchasing function in processes of purchasing KIBS (O'Mahoney, Heusinkveld, & Wright, 2013; Sieweke, Birkner, & Mohe, 2012; Werr & Perner, 2007).

However, studies on KIBS purchase remain mainly anchored to the exploration of the characteristics of the purchasing process (i.e. risks, relations and involved actors) with scarce attention to its effects for the buying firm and the relation between the purchasing processes adopted and related effects. In this vein, little reference has also been made to the impacts of purchasing KIBS on the development of innovation for the buying organization. This seems problematic since buying firms, as discussed, are increasingly interested in and dependent upon KIBS capabilities and the innovation these capabilities can foster. The lack of focus on the effects of purchasing KIBS also contrasts with the recognition of the strategic role of the purchasing function for the company and therefore with its contribution to firm's competitiveness and performance (Johnsen et al., 2014). Therefore, it seems that research on the purchase of KIBS has been neglecting important trends and missing out on the opportunity to guide companies on how they can effectively purchase KIBS in order to foster their innovation gains.

Two different bodies of literature can be of help in this sense. On the one hand, literature on innovation purchase, which involves studies on supplier and customer involvement in new product and service development projects (e.g. Stanko & Bonner, 2013; Tsai, Joe, Ding, & Lin, 2013) and the public procurement of innovation (e.g. Hommen & Rolfstam, 2009; Uyarra & Flanagan, 2010), shows that the way purchasing processes are organized can have different impacts on innovation generated in the buying firm. These studies, nevertheless, do not focus on the KIBS purchasing context. On the other hand, the KIBS literature explores the crucial role of KIBS in fostering innovation. However, this second stream of literature is usually concerned with economic aspects,

such as knowledge spillovers across sectors, contributions to local and national innovation systems or the number and type of KIBS firms needed in a location to stimulate innovation in the local economies (He & Wong, 2009; Hertog, 2000; Windrum & Tomlinson, 1999) while neglecting the innovation generated at the buying firm level.

Both research streams provide valuable insights, but these are not fully integrated with literature on KIBS purchase and, thus, cannot completely explain KIBS purchasing effects for buying firms, especially in terms of innovation. Table 1 highlights this research gap showing the similarities between these three research streams (KIBS purchase, innovation purchase and KIBS in innovation systems) and pointing out unexplored issues.

We therefore decided to explore the missing link between purchasing KIBS and the consequent effects at the buying firm, specifically focusing on the innovation effects. In other terms, in this work we suggest that knowing how to effectively organize processes of purchasing KIBS can increase innovation returns for the buying firm. Gaining such overall understanding is even more relevant if it is considered that purchasing KIBS is central to contemporary economy.

In order to achieve that, we integrate the results of a systematic literature review on purchasing KIBS with literatures respectively on purchasing innovation and KIBS roles in innovation systems. Through the extensive study and integration of the literatures examined, we aimed to answer two research questions: RQ1: What aspects of the KIBS purchasing process can influence the innovation generated with the acquisition? RQ2: How should buying firms consider these aspects of the KIBS purchasing process to improve their innovation returns? We conducted our systematic literature review considering combinations of the three topics, i.e. KIBS, purchasing and innovation. Knowledge obtained has led to the conceptualization of a framework, which shows factors that need to be considered during the KIBS purchase to generate innovation.

The contribution of this research is fourfold. First, we add to the current knowledge on purchasing KIBS by shifting attention also to the effects of the KIBS purchasing processes and by exploring the relation between KIBS purchasing processes and related effects on innovation at the buying firm. Second, we raise evidence on the importance of the relationship between KIBS providers, KIBS users and the purchasing function, i.e. the KIBS triad, to favour innovation outputs at the buying firm when KIBS are purchased. Third, we contribute to the debate on the integration of the purchasing department into KIBS sourcing and reconcile extant contrasting positions by providing a set of conditions that reduce a negative cost-driven purchasing orientation and let a more strategic and value-adding orientation prevail. Finally, this research provides insights for practitioners to use their purchasing resources to innovate and identifies a series of research opportunities for developing future works.

This paper is organized as follows: next section explains the research process and method adopted to achieve our research objectives and to answer our research questions. Then, the outcomes of the literature analysis are presented and are followed by the presentation of the theoretical framework and a discussion on its main implications for practice and future research. The final section concludes summing up the main contributions and limitations of this research.

Table 1
The research gap identified.

Streams of literature	Object of purchasing examined			Focus on characteristics of the purchasing processes	Analysis of effects		Relation between purchasing processes and innovation effects explored
	New product development projects	Public procurement of innovation	KIBS		On system innovation	On innovation at the buying firm	
Literature on purchasing KIBS	×	×	✓	✓	×	✓ (limited)	×
Literature on purchasing innovation	✓	✓	×	✓	×	✓	✓
Literature on KIBS in innovation systems	×	✓	✓	×	✓	×	×

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