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FACTORS OF KIBS PROVIDERS' INNOVATIVENESS

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Abstract

The paper deals with KIBS' roles and key dimensions in the context of innovations as well as factors, making influence on KIBS providers' innovativeness. The aim of the paper is to highlight main factors influencing the innovativeness of KIBS provider. The comparative and analogy analysis of scientific literature has showed that innovations and orientation toward innovativeness are inspired by the KIBS provider's strategy, organization culture, low hierarchy and flexible value networks, close and trusting client relationships. Human resources in KIBS play the most important role: innovativeness is related with organizational learning and experts' knowledge and individual skills. All these factors make a complex that maintains the process of knowledge sharing that is a vital for creating innovations.

In the paper the dimensions of innovativeness in KIBS are characterized and theorized. The research draws attention to the impact of factors contributing service provider's innovativeness. Designed framework of main factors influencing the innovativeness of KIBS provider could help service providers to identify success factors in their activity leading to innovations, to create value for the client as well as increase their competitiveness and improve business performance. Taking them into account, KIBS providers have to manage their business insomuch that would be able to get as much information and knowledge as possible in order to create useful services for the client and beneficial ones for the company.

Keywords: knowledge intensive business services (KIBS), innovativeness and innovations.

Introduction

Knowledge is one of the most critical success factors in many organizations, and especially in the knowledge-intensive service sector. In addition, knowledge-intensive services are among the fastest-growing and the most dynamic sectors of the economy: they provide considerable potential for future employment growth; they contain many innovative users of new technologies and they form important intermediaries and nodes in innovation systems (Kemppilä & Mettänen, 2003). Knowledge intensive business services (KIBS) are considered to be one of the hallmarks of the knowledge-based economy. KIBS have been among the most dynamic segments of the service sector in European countries since the mid-80s. KIBS provide considerable potential for future employment growth, contain many innovative users of new technologies (Miles, 2003); they act as potentially valuable intermediate inputs across a range of sectors of economy and thus directly shape the competitiveness and performance of manufacturing and service firms, as well as organizations administered by local and central government (Grimshaw & Miozzo, 2006). The KIBS sector is, in particular, said to have a strategic role in stimulating innovation processes (Aslesen, et al., 2004).

Usually KIBS are analyzed through the impact to economic growth (Koch & Strotmann, 2004; Miles, 2003; Toivonen, 2004; and others) or the role in innovation creation invoking close relationships with clients (Hyypiä & Kautonen, 2005; Kemppilä & Mettänen, 2003; Miles, 2003). Scientific literature is lacking of analysis that would be orientated to KIBS provider and its specificity. Kemppilä and Mettänen (2003) highlight that attention is paid to factors, which have influence on innovativeness of KIBS provider is not sufficient.

Being at the centre of knowledge creation and learning processes knowledge intensive business service providers help clients to generate new business ideas as well as develop innovations. In order to help client to create innovations, KIBS provider should be innovative too. If knowledge intensive business service provider helps client to create innovations, who is going to contribute KIBS provider's innovations? In order to answer this question the following purpose of the research is set: to highlight main factors influencing the innovativeness of KIBS provider. In order to achieve this purpose the comparative and analogy analysis of scientific literature were used.



KIBS' roles and key dimensions in the context of innovations

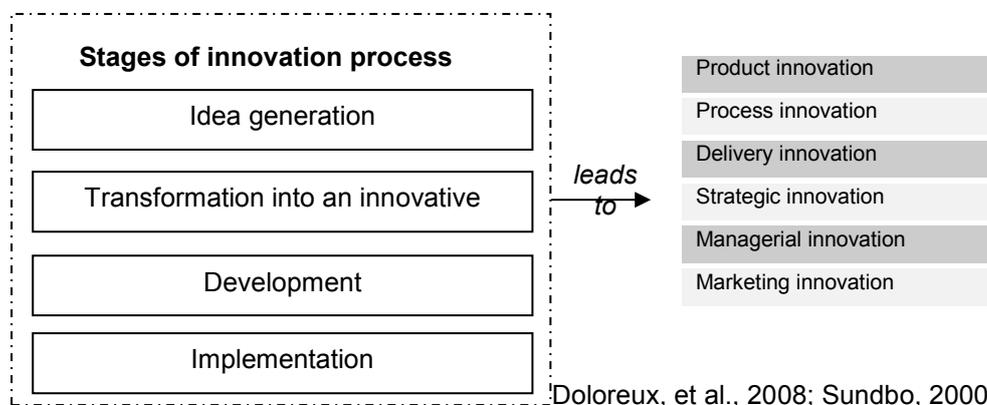
KIBS are in the front line of the development of the knowledge economy. They include the various services: the computer and related services, research and development, legal and financial services, marketing services, technical services, labour recruitment, training in the private sector (Gallouj, 2002; Toivonen, 2004; Kuuisto & Meyer, 2003). In other words, KIBS include the activity of researches, consulting and engineering provided by expert firms and they are based on intellectual, philosophical, methodological, technical or procedural knowledge (Eriksson & Lindvall, 2002). Evanschitzky, et al. (2007) emphasize that KIBS may be described by the ratio between service complexity and capital-labour input. The knowledge, innovation and spatial proximity are three key conceptual dimensions of KIBS (Muller & Doloreux, 2007).

Simmie and Strambach (2006) stress that KIBS growing drivers are a demand led, especially for different types of technological knowledge's, cost driven, outsourcing phenomenon arising with flexible production system. Other reasons of increasing KIBS sector are the need of specialised knowledge of social, administrative, regulatory issues, globalisation and internationalisation, an increasing emphasis on service and on intangible elements of production and products in the knowledge-based economy, issues regarding labour market for knowledge workers (European Monitoring Centre on Change, 2005). Smedlund and Toivonen (2007) highlight three roles of KIBS, namely:

- 1) to take care of some well-defined tasks or some specific stage in the client's business process (e.g. financial analyses, feasibility studies, design documents, managerial services etc),
- 2) to concentrate on solving the client's production-related problems (including diagnosis, clarification tasks and providing some advice),
- 3) to provide a neutral outside perspective, that facilitates the implementation of changes.

Hertog (2000) emphasized that KIBS can trigger and strengthen the processes of knowledge conversion in client firms. According to Muller and Zenker (2001), the appropriation of knowledge by KIBS clients is not result of transmission from KIBS in co-operation with their clients, but it is recombination of knowledge previously acquired by KIBS that allows them to create their own market. Toivonen (2004) underlines that KIBS providers do not merely store or transfer information to their clients, but foster the development of knowledge through learning in networking. KIBS involve close interaction with client firms and may imply a mutual learning process (Viljamaa & Kuusisto, 2006). KIBS also carry new ideas and best practices from one firm to another (Smedlund & Toivonen, 2007; Wong & He, 2002). These services usually create large additional value because integration of knowledge, staff professional competency, close relations between service provider and client helps to be innovative to service provider and also increases the innovativeness of clients.

Innovation activity is then seen as a complex, interactive, non-linear learning process, which emphasizes the importance of co-operation in innovation processes as well as a systemic view of innovation (Aslesen, et al., 2004). According to Sundbo (2000), contribution to innovation process is a part of KIBS providers' work and it is a professional norm that they should innovate. Innovation process may lead to different type of innovation (see Figure 1). Delivery, strategic, managerial, and marketing innovations represent non-technological forms of innovation.



It may be assumed that firms providing KIBS hold a specific position in innovation systems because they play a two-fold role. First, they act as an external knowledge source and contributor of to innovations in their clients' firms. Second, knowledge-intensive services introduce internal innovations, providing highly-qualified workplaces and contributing to economic performance and growth (Kemppilä & Mettänen, 2003).



Dawson (2005) distinguish such KIBS functions as adding value to information, building knowledge and expertise, capturing and sharing knowledge, as well as applying knowledge. They are often sources of innovation (e.g. R&D and design services), agents of transfer of knowledge for innovators (consultancies, training, etc), and coordinators and integrators of different types of expertise (engineering services) (Bommakanti, 2005). Wong and He (2002) confirm undoubtful KIBS role in innovation process. According to them, KIBS provider act as: (1) the facilitator of innovation when a KIBS firm supports a client firm in its innovation process, but the innovation at hand does not originate from this KIBS firm; (2) the carrier of innovation when a KIBS firm plays a role in transferring existing innovations from one firm or industry to the client firm or industry. However, the innovation at hand does not originate from this particular KIBS firm; (3) the source of innovation when a KIBS plays a major role in initiating and developing innovations in the client firm; (4) catalyst to promote the fusion between generic explicit knowledge dispersed in the economy and more tacit knowledge located in the firms or sectors they service.

Therefore, we may stress out that KIBS provider's activity is client-orientated and directly leads to the result of innovation. Although KIBS providers help to develop innovation to their clients, so KIBS provider should be innovative as well. That's why a need to know which factors make influence on innovativeness of KIBS provider emerged.

Factors making influence on innovativeness of KIBS provider

Talking about the innovativeness of KIBS provider it may be stated that different authors suggest divergent factors that have to be taken into account. Some of those factors like organization strategy, organization culture or its structure can be called as *internal* while others like relationships with customers, partners, research centres and scientific institutions or suppliers, networking refer to *external*. All of them make a complex that influences the innovativeness of KIBS provider. Dawson (2005) distinguishes factors of KIBS provider, leading to innovativeness: internal factors are human capital and structural capital; however, relationship capital may be considered as external factor.

Human capital is critical factor for developing and implementing innovations (Miles, 2003). It refers to the people who work for an organization, and their skills and abilities in creating value for organization and its clients (Dawson, 2005). KIBS provider's knowledge (Gao, et al., 2008) help them to develop competitive products or/and services. Providing KIBS, the most important role falls not to technology, but to staff competence (Haataja & Okkonen, 2004), experience, insight, creativity, etc. (Bagdonienė & Jakštaitė, 2009). Jaakkola & Halinen (2006) highlights the characteristics of KIBS as expert (specialist) knowledge, autonomy in decision-making, altruism, self-regulation and a high degree of customer participation and customisation. Teo et al. (2008) highlight that knowledge-based firms like KIBS providers employ individuals who are highly skilled. These companies produce, distribute and use knowledge and information as their source of competitive advantage. Workers here are employed to solve complex problems through the development of creative and innovative solutions.

Talking about the *Structural capital* it must be mentioned that this kind of capital includes organizational culture, structure and strategy.

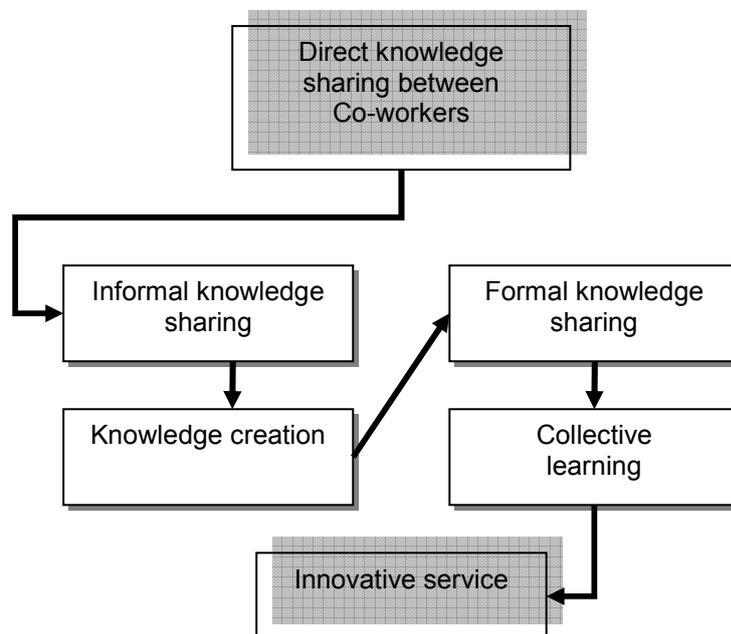
Organization culture can be defined in various approaches. According to Burke (1995), some researches say that it is the basic assumptions underlying an organization's values. It also may be considered as organization's norms. Managerial writing on organizational culture rests on three assumptions or premises:

1. organizational culture is associated with important work outcomes;
2. particular features or characteristics of organizational culture explain these associations;
3. work outcomes can be changed by changing particular features of organizational culture (Burke, 1995).

In the context of learning organization, Wang (2007) maintain that building and strengthening organizational learning culture is a powerful way to foster employees' job satisfaction and organizational commitment, and to create a healthy and stable workforce. Results of the study suggest that organizational learning culture is strongly associated with employees' job satisfaction and organizational commitment, and is strongly associated with the health and stability of an organization's workforce, which ultimately influence the organization's performance and other organizational outcomes. So in the perspective of innovations, it is vital for KIBS provider to create such organization culture, where every worker would have an interest to stay within the company. According to Haataja (2005), organization culture should emphasize the development and identification of innovations. So, an effective human resource policy that supports innovation and encourages the development of an innovative organization is needed. Rewarding employees for their innovation effort is one way to build an innovative culture (Oke, 2007).

In the study of consultancy firms Taminiau, et al. (2009) maintain that it is important to stimulate and encourage a culture in which the sharing of new ideas, which arise from the process of knowledge sharing, takes place with full support of management. In other words it has to be mentioned that in order to create innovations as well as to be innovative, top management has to stimulate the knowledge sharing between professionals. These authors also highlight that the lack of knowledge sharing implies a large financial risk. This risk is associated with a loss of information and knowledge in those cases then a worker decides to leave the company. The risk is bigger when he or she starts working in a company of competitors.

Generally speaking, organizational culture enables professionals to engage in effective communication and knowledge sharing (Teo, et al., 2008). Within an effective communication process, according to Lievens, et al. (1995), workers share their understanding and learn from each other about customer needs, technological specifications and opportunities, competitive strategies, and the required innovation resources. At the same time direct knowledge sharing make an impact on innovations. While analyzing consultancy firms, Taminiau et al. (2009) indicate that there is some kind of a route to innovative service in consultancy. The same logic can be applied to the context of KIBS (see Figure 2).



2 Figure. The route to innovation in KIBS (modified according to Taminiau, et al., 2009)

It is clear, that formal and informal knowledge sharing leads to different results. On the other hand, the final result of direct knowledge sharing is innovative service. So it can be highlighted that in the knowledge-intensive business service company effective communication and knowledge sharing processes have to taken into account. Especially the relevant information is a base for a provision of KIBS. Also organization has to process and gather information during the innovation process.

The organizational structure is therefore a critical determinant of the information processing task and innovation activities in particular (Lievens & Moenaert, 2000). Bunge, (1985) as cited in Wei, et al. (n.d.), quotes and say that organizational structures consist of not only such concrete parts as individuals, groups, teams and departments but also abstract parts such as the correlations among organizational elements. The same authors while analyzing innovations in KIBS highlight the importance of innovation organization. KIBS innovation organization is a formal innovation organization unit or an informal sub-organizational unit, with the form of a trans-functional or cross-functional innovation team. The implication of this definition is that, for one thing, KIBS innovation organization itself is one part of the firm and thus will be influenced by its external networks and rely on (or exist within) particular firm organization; for another, KIBS innovation organization may be either a formally established department or a spontaneously-established informal organization within a firm; as far as manifestation is concerned, KIBS innovation organization share all the basic characteristics of trans-functional team. According to Wei, et al. (n.d.) these organizations can be described as having unique characteristics. They are flat organization, give more emphases on



teamwork and cooperation, and therefore display more flexibility. Nevertheless, low hierarchy enhances innovations and creativity (Haataja, 2005). Consequently it can be assumed that the innovativeness of KIBS depends on organizational structure so the top management has not even to ensure the appropriate organizational culture but also to stimulate teamwork and make the structure more non-hierarchical.

Other aspect of knowledge intensive business service provider's innovativeness is related to a **strategy** of it. Miles (2001) says that innovations and an orientation to innovativeness are inspired by the firm's strategy. The usual strategy for a professional service firm is to create a service with a pilot client and after that duplicate and further develop that service with other clients. This means that the role of the relationship with a client is significant for the everyday operations of the professional service firm, regardless of whether the service delivered is one that has been recently discovered or is well established (Smedlund, 2008). In other words, it is more than simply being consumer-oriented; it means continually collaborating and learning with customers in order to respond to their individual and dynamic needs (Matthing, et al., 2004). However, learning-orientation, which fosters the collective/organizational learning, is an organizational level phenomenon. Employee and management 'learning' by education (training and seminars) is needed but not sufficient for firm innovativeness (Keskin, 2006). As mentioned above, first of all KIBS provider has to create a strategy with a clear orientation to innovations. According to Oke (2007) management needs to develop the strategy and communicate the role of innovation within a company, decide how to use technology and drive performance improvements through the use of appropriate performance indicators.

Duygulu, et al., (2008) maintain that innovation capability is under the influence of organization culture, organization structure and environment variables. The structure of organization has a tendency to specialize according to changes of environment.

Relationship capital is another important aspect. It includes relationships with clients, suppliers, partners, and other parties as well as networking. Analysing KIBS, Sobel (2006) emphasizes that the **relations** between KIBS providers and clients are harder than ever to build and sustain but they are also more important than ever. He states that the growth and profitability of those firms is still very dependent upon their ability to manage and grow key relationships. But Gummesson (1998) previsions not all relationships are important to all companies all the time. In others words, the company needs establish which relationship portfolio is essential and make sure it is handled skilfully. Gadrey and Gallouj (1998) note that relationships between business services providers and their clients may be analyzed in terms of complementarities and interaction. The analysis can be based *on three moments*:

- 1) as a *moment of true* (i.e. as a process of interaction, as a form of organisation, and as part of both the client's and the consultant's value chain),
- 2) as a *moment of trust* (based upon various modes of interaction and various logics of interface,
- 3) as a *moment of thrust* (thanks to innovation).

KIBS cannot simply be equated with the purchase of standardized external services (Simmie & Strambach, 2006). KIBS are services when client is high involved (Caniëls & Romijn, 2005). The provision of these services requires in-depth rapport between a provider and client. Both parties (the provider and the client) are involved in a cumulative learning processes which must occur if a transfer of knowledge or a problem solution is to succeed (Simmie & Strambach, 2006; Bagdonienė et al., 2007). The client's firm gets its problem solved, while the service provider can generalise the solution and sell it (in adapted form) to other client firm. According to Caniëls and Romijn (2005), knowledgeable and demanding clients are a valuable asset to the service provider. They support the development of new ideas, solutions, and technologies by sharing their requirements, strategic insights, information and knowledge. Toivonen (2004) stresses that many clients expect KIBS firms to verify how their services support the client's business. Ojasalo (2001) notes fuzzy, implicit, and unrealistic expectations of professional services customers which may represent a dangerous pitfall for long-lasting customer satisfaction. So the expectations' management is particularly important when the goal is to create long-term customer relationships.

Kuusisto and Viljamaa (2004), Bagdonienė, et al., (2007) claim that the needs of relationship development are not necessarily recognised or clearly understood by the potential client. By offering KIBS provider often helps client in formulating the problem in such manner that it will lead into purchase of external expertise. In this way KIBS must be proactive in finding solutions for problems of potential client. Experts of KIBS need to know deeply the clients' business and their own professional knowledge and to combine this when seeking for a solution. It means that KIBS provider and client complement one other.



Halinen (1997) underlines that only the long-term relationships may produce strategic benefits for the professional service provider in its marketing through generating referrals and credentials or creating competitive advantage by building barriers to switching the providers.

Caniéls and Romijn (2005) state that only a minority of customers tend to be truly articulate and motivated to maintain close linkages with service providers. This means that KIBS provider must invest into relationships development. The investments in relationships development (it can be the adaptation of product, process and organisation) tend to be made only if the outcomes within the relationships are perceived to be satisfactory (either now or in the future). Rokkan, et al (2003) states the potential benefits of investment are considerable and from marketing strategy viewpoint it plays a key role in achieving positions of competitive advantage.

According to Bagdoniené et al. (2007), the nature of cooperation and roles of relationship participants usually determine features of relationships. The relationships between KIBS providers and their clients could vary in forms – from very remote relationships, where the KIBS firms act largely as a contractor performing a predefined task, to more intimate, interactive ones, where the KIBS providers may be in long-term partnership with clients and negotiate the services tasks with them. Heatcote (2006) notes that the closeness of the relationships sometimes became the challenges for professionals: they are intimately involved in the business but must retain full objectivity.

As Anand and Khanna (2000) state, firms have to learn to manage their relationships to be able to cope with them. Distinct modes of development in client relationships are quite possible in relation to various KIBS sectors and firms. It may be that more strategic and intimate relationships tend to be reserved for larger clients, while more standardised solutions are introduced to others (European Monitoring Centre on Change, 2005). In some cases KIBS providers prefer to maintain a certain distance in the client relationships. For example, high cost and uncertain quality of some services cause to provide more standardised solutions to common problems of different clients.

It is important to point out that relationships between KIBS firms and their clients are characterised by confidentiality. KIBS providers have access to their client firms' confidential business information in a way hardly possible to any other type of firms (Hyypiä & Kautonen, 2005).

Successful relationship marketing requires relationship commitment and trust (Morgan & Hunt, 1994), customer orientation/empathy, experience/satisfaction and communication (Conway & Swift, 2000). Liljander and Roos (2002) note that on the basis of trust and commitment the relationships between service provider and client may vary from spurious to true. According to Doney and Cannon (1997), the trust of the provider firm influences a client's anticipated future interaction with the provider. Sharma and Pattersson (1999) note trust is decisive for continuity of relationships. Trust is very important for KIBS. Immateriality, heterogeneity and interaction as the main characteristics of these services refer to the fact that provider cannot pre-use a guaranteed level of service. Usually KIBS are sold on a promise and this promise highlights the importance of trust in the relation between service provider and client. Both parties (the provider and buyer) have to earn each other's trust and loyalty, and they have to become used to each other's way of thinking and acting (Caniéls & Romijn, 2005). The relationships commitment, according to Sharma and Pattersson (1999), is a function of communication effectiveness and trust.

Referring to the fact that relationships between a service provider and a client are difficult to copy, KIBS firms can choose a proper target group, make a contact with it and develop relationships in order to increase profit in long-term and achieve their innovativeness.

Despite the importance of relationships between KIBS provider and clients it is necessary to point out that innovations can be created in collaboration with other actors as well. Also, if businesses are to maintain their competitive advantage and continue to sustain their performance, collaboration should result in creation of new and unique value propositions based on a unified approach to value creation (Bititci, et al., 2004). Instead of providing the maximum value to customers on their own and running the risk of being unprofitable in the long run, actors contribute to the value creation process by focusing on their core competence and cooperating with other network actors, such as suppliers, partners, allies, and customers (Basole & Rouse, 2008).

According to Basole and Rouse (2008), **value networks** are characterized by a complex web of direct and indirect ties between various participants, or actors, all delivering value either to their immediate customer or the end consumer. Allee (2002) emphasizes the importance of relationships and says that value network is any web of relationships that generates tangible and intangible value through complex dynamic exchanges between two or more individuals, groups, or organizations.

A service value network contains five types of actors: consumers, service providers and several types of enablers (1 tier, 2 tier and auxiliary) (Basole & Rouse 2008, 2008). In the context of knowledge-intensive business services, businesses are consumers. In other words, collaboration between service provider and client is regarded to B2B model. According to the authors mentioned to provide a



service to the consumer, a service provider relies on numerous enablers that help create, design, initiate, and deploy the service. For example, KIBS are highly dependable on new knowledge that can be provided by universities or other research institutions. Also IT play important role in the creation of service, service delivery process. Within this collaboration not only physical goods or services exchanges are made. Moreover, there are some intangibles as well. According to Allee (2002), intangibles are those 'little extras' people do that help keep things running smoothly and help build relationships. These include exchanges of strategic information, planning knowledge, process knowledge, technical know-how, collaborative design work, joint planning activities, and policy development. So it can be pointed out that value networks are treated as a platform of collaboration that is vital for information, knowledge, competencies and other exchanges resources that leads to generation of new ideas, implementation of innovations and, finally, creation of value for clients and KIBS providers as well.

Summarizing all factors making influence on KIBS innovativeness, framework is suggested (see Figure 3). Internal factors (strategy, human resources, organizational culture and structure) are core in managing KIBS innovativeness. They are closely related with each other and create a background for KIBS provider's abilities to innovate. Synergy effect of these internal factors spreads to external environment of KIBS provider and leads to innovativeness of other parties (clients, suppliers, partners, etc.) involved in KIBS business processes as well.

External factors like relationships between KIBS provider and other parties as well as value networks stimulate innovativeness of service provider. Especially, we may highlight client demand, suppliers' and partners' innovativeness, intensive relationship with research centres and scientific institutions.

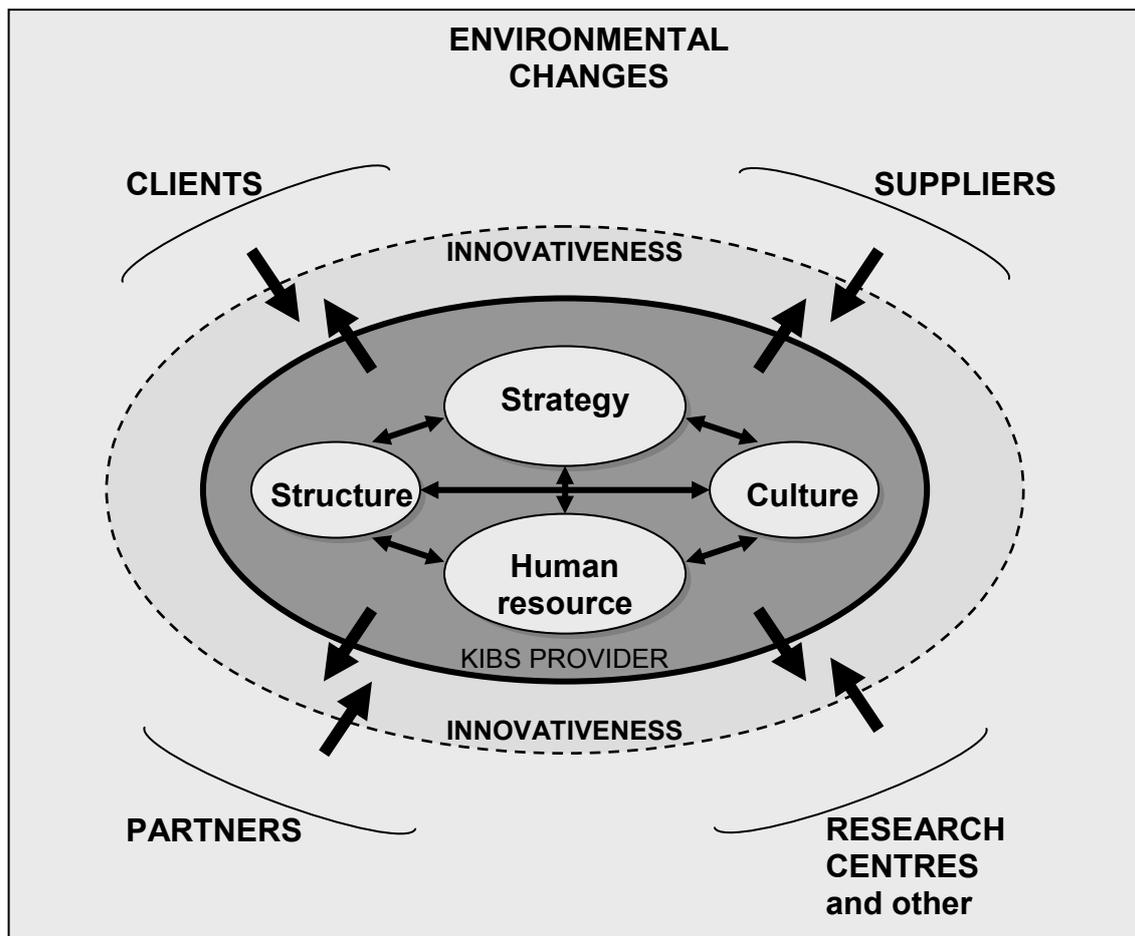


Figure 3. Framework of KIBS provider's innovativeness

All of the actors in KIBS provider's business processes act in the context of social, cultural, economical, and political environment. Very important are people's social and cultural norms and expectations where, over time, changes enable new businesses and approaches to business.



Finally, in order to be innovative KIBS provider has to pay attention to effective management of its internal factors. Having a good background for innovativeness KIBS provider has to react proactively to the changes of environment and to take the best practice and know-how from other actors of the business.

Conclusions and directions for further research

KIBS provider's roles in the context of innovativeness reflect through the key conceptual dimensions of KIBS (knowledge, innovation and spatial proximity). KIBS provider acts as a facilitator, carrier, source of innovation or/and catalyst.

Factors that make influence to KIBS provider's innovativeness can be classified into two broad groups: internal (structure, culture, strategy, human resources) and external (relationships with other business actors and value networks). Internal factors give a background for KIBS provider's ability to innovate, and external ones complement KIBS provider's innovativeness. KIBS providers should start form its own organization. Provider of these services should create an appropriate culture and structure: it helps to KIBS provider to manage information, knowledge and competences effectively. Good management of these aspects should be guided by innovation driven strategy.

However, KIBS provider usually acts in various networks where relationships among parties are vital. Within these relations new ideas leading to innovation and value are created.

For the future research our framework prepared could be tested empirically where relations between different factors would be identified and their intensiveness could be evaluated.

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