

# SOURCING INNOVATION – MAKING INNOVATIONS HAPPEN THROUGH STRATEGIC COLLABORATION

This article attempts to present the initial efforts taken to understand the conceptual domain as well as recognize the key factors that underpin sourcing innovation. Specifically, the article is based on the interviews performed with some of the key players in the Danish industry. This research is affiliated to ReCoE (Reducing cost of energy in the offshore wind energy sector through supply chain innovation).

BY CHRISTOPHER RAJKUMAR, PHD STUDENT,  
DEPARTMENT OF ENTREPRENEURSHIP AND  
RELATIONSHIP MANAGEMENT, UNIVERSITY OF  
SOUTHERN DENMARK

**N**owadays, the intricacy of products as well as the modern requests from customers has increased the gap between a company's development needs and its innovation capability. As a result, even large firms cannot innovate independently. Therefore, organizations are increasingly finding the need to incorporate and utilize the innovation capabilities of their external partners so as to not only close this gap, but also to innovate products. In fact, this is considered a key ability that could provide firms with sustainable competitive advantage. Accordingly, key suppliers are assuming a vital part in advancing the development ability of the focal

firm either through their own innovations or by taking an active participation in the innovation exercises. This emerging model, termed "Sourcing Innovation", highlights how the sourcing function could help organizations to be innovative by actively involving their suppliers as well as create innovative products of next generation.

Sourcing innovation thus has become a critical strategy that could add value as well as serve as a key driver of sustainable market growth. It has also become progressively critical for any organization to gain continuous growth that focuses beyond cost reductions. Accordingly, it is not just about finding good suppliers; instead, there

## DANSK RESUMÉ

I dag er der i flere virksomheder skabt en kløft mellem virksomhedshedens udviklingsbehov og innovationskapacitet. Derfor har mange organisationer behov for at inkorporere og udnytte de innovationsmuligheder, de kan få gennem deres eksterne partnere. Denne artikel har fokus på sourcing innovation og de afgørende faktorer, der underbygger fænomenet, og er baseret på interviews med nogle af hovedaktørerne i den danske industri. Artiklen er den anden ud af fire artikler om forskellige ph.d.-projekter, der repræsenterer, hvad studerende lige nu forsker i inden for supply chain-området.

/Redaktionen

should be an organized process to identify, select, as well as effectively collaborate with suppliers so as to advance or generate new innovations within organizations.

## Sourcing innovation: an innovative paradigm

As a concept, sourcing innovation has gained prominence only in the recent years. Consequently, authors use various terminologies for sourcing innovation including innovation sourcing, innovative sourcing, sourcing external innovation, sourcing practices and innovation, knowledge sourcing and innovation, sourcing external knowledge for innovation, as well as global

ILLUSTRATION: ISTOCK



sourcing and innovation. In other words, there is a lot of confusion and numerous terminologies are forwarded with distinct definitions. For this very reason, there is a clear need to come up with a consistent definition for sourcing innovation.

The most commonly used definition of sourcing innovation is that it is “an affair between two firms, which in turn results in substantial growth for both organizations”. It is, of course, a capability through which firms can collaborate, build and reconfigure internal and external competencies to address the needs of a rapidly changing market. Among others, it focuses on integrating suppliers in the innovation process to reduce failure rates as well as to increase the returns from new products. Above all, it can be seen as a larger network-level capability to build successful relationships with external partners in their innovation process.

### Insights from the interview

The interviewees were asked about their opinion concerning the concept of sourcing innovation.

Precisely, they were asked:

“What is sourcing innovation from their perspective (from practical aspect)?”

When posed to the chief procurement officer from company A, he replied “they have huge potential that we can tap into; if we work in the right way”. Furthermore, he also mentioned it is more of “finding new ways to work with the suppliers to create value”. He reiterated that by doing this, suppliers get much closer to the buying firm.

The Vice President Strategic Sourcing from company B replied that sourcing innovation is “development away from category management or just hardcore bargaining to the next level where you see that you can get benefits many other ways”. Additionally, he also pointed out that “sourcing innovation is in the field where as a sourcer you are not only a sourcer; you need to know the product, to be able to bind internally in the firm; to bind resources from engineering and production; also from the supplier side, they should be able to bind the resources together to create right product at lower price”.

The global sourcing director from company C replied that “sourcing innovation is that you see the synergy between our knowledge and supplier’s knowledge; we both have competences that give the synergy; we have to identify what our core competences are and by combining those that gives the synergy and equal growth and profits for both parties”.

By merging lessons from both theory and practice, sourcing innovation could be defined as:

“an operative engagement or commitment among firms through which they, together, can achieve substantial growth and effective synergy in each other to be innovative”.

### The four predominant factors of sourcing innovation

Based on the insights from both literature and interview it is clear that when the sourcing function is involved in innovation efforts, it is important to have the required training on the strategic elements of the competitive strategy. If they are trained appropriately, then the sourcing function can select the right suppliers and manage them strategically, and, more importantly, it will begin measuring supplier’s performance in terms of its contributions to the firm’s innovation as well as other non-cost aspects. Additionally, the notion of sourcing innovation can also be envisioned to encompass other key aspects such as the innovativeness of the focal firm, ability of the suppliers to innovate, the willingness of the suppliers to participate in all innovation initiatives, sourcing function’s involvement in new product development, as well as early supplier involvement in new product development.

Accordingly, strategic level of the sourcing function, firm innovativeness, supplier innovativeness, and early supplier involvement are considered to be the four pivotal factors of sourcing innovation. These four first-order factors of sourcing innovation were further validated during the interview of executives from the three manufacturing firms. The following section presents the rationale for including these four factors as well as the insights gained from the interviews.

### Strategic level of sourcing

Nowadays, there is a clear move from usual sourcing with one or a small number of key partners to strategic sourcing with multiple suppliers. Moreover, in this competitive setting, relationships cannot be focused on the reduction of cost alone. As an alternative, the scope of supplier relationships must go further than mere price negotiation and should be based on other capabilities focusing as innovation, superior quality, etc. Additionally, establishing such relationships is impractical until the sourcing function is treated as a non-strategic function.

Strategic sourcing is “the process of designing and managing supply networks co-

ordinated with functional and organizational performance objectives”. Precisely, it is an organized practice that adds value, which in turn helps to achieve the company’s long-term objectives.

An active strategy requires a structured insight of firm’s market approach, key resources, and the risks inside the firm. A regular analysis of the sourcing strategy recognizes continuous growth and stability to business goals. Also, it serves as a key ingredient to other key firm capabilities (e.g., innovation, flexibility, quality, etc.).

It is evident from the interview that today firms are having dedicated sourcing people who are integrated as part of cross-functional project teams. They consider that category management must have a strategic focus on change processes so as to cut down costs as well as bring in the right suppliers. The sourcing personnel are also working together with other functions on cost out initiatives and strategies; such cross-functional efforts results in optimized supply chain performance. Strategic sourcing also helps the focal as well as the supplier to trigger a close cooperation when it comes to innovation as well as sharing risks. On other words, it is quite obvious that firms are more focused on the strategic aspects of the sourcing function and helps to achieve a competitive advantage in the market along with their suppliers.

### Firm innovativeness

Firm’s acknowledgment to employ new ideas that lead to the advancement of new products is termed as firm innovativeness. It is also about whether the firm’s willingness to invite new organizations to help them improve their competence as well as successively lower costs and sustain market performance. Moreover, innovative firms have a unique trait that helps them to distinguish themselves from their non-innovative competitors. This boosts the awareness of the firm to changing market conditions; specifically, it enhances the firm’s ability to not only identify new opportunities, but also respond to it so as to sustain market growth. As a result, innovative firms demonstrate constant innovative actions over an extended period of time.

It is believed that the time of implementation of an innovation defines the innovativeness of a firm. Furthermore, innovative firms emphasize more on lower cost, high quality products, and additional customer service. Even though an organization implements innovation earlier than others, it does not mean that it can demonstrate the same for all innovations. Accordingly, valid



measures must be based on the adoption of several innovations. Innovative firms will demonstrate high level of innovativeness consistently overtime.

In summary, “firm innovativeness” can be conceptualized from two perspectives: First, as a behavioral variable and, second, as an organization’s willingness to change. Accordingly, firms with great innovativeness are likely to benefit significantly from new opportunities generated by rapid changes in the market.

### Supplier innovativeness

As indicated earlier, development of innovation inside many firms also includes many key suppliers. Therefore, firms should recognize suppliers that can comprehend the demands hidden in the innovation process and work with them to develop innovative solution. On the other hand, suppliers must support the buying firm in their pursuit for innovation, particularly through collaboration as well as continuous enhancement of products. The firm’s ability to achieve such supplier knowledge can be calibrated as a critical component of innovative performance. Accordingly, it is suggested that a systematic evaluation of suppliers should be followed so that greater growth can be achieved from their innovativeness.

Supplier innovativeness is more about the supplier’s ability to generate and implement new designs, techniques, as well as investments in new products, processes, and technologies. On the other hand, from a buyer’s perspective, the innovativeness of a supplier is also about the willingness of the supplier to support in their new product development. It is evident that supplier innovativeness allows the buying firm to enhance their capabilities to react quickly to market changes; consecutively, this enables firms to strengthen their responsiveness to the needs of the consumer as well as achieve greater returns. As a final point, supplier innovativeness definitely enhances the buyer firm’s performance including product development, cost, quality, flexibility and delivery.

### Early supplier involvement

Early Supplier Involvement (ESI) is related to advanced level of collaboration in which the buying firm involves its suppliers in the early stages of new product development as well as in all their innovation processes. The early integration of suppliers in new product development has increased in the recent years; additionally, the approach of open innovation has also become more prevalent in firms. The practice of early supplier

involvement brings the suppliers and the manufacturing firms close together in sharing both knowledge as well as the manufacturing risks. Moreover, it also gives suppliers an opportunity to participate in all the key stages of consumer’s product development.

The involvement of suppliers at an early stage in the new product development process can be considered as a predominant driver in advancing the supplier’s design capabilities as well as improving the competency of the new product development process. Furthermore, it also provides an enhanced transparency of the end product in the initial development stage and offers a chance for the buying firm to closely monitor the activities of the supplier. Lastly, ESI also provides both purchasing firms and participating suppliers with significant revenues throughout the development of new product.

### Managerial implication: demand to action

Having talked about all these significances of sourcing innovation, someone still questions:

“Why is there a need for sourcing innovation?”

Here is the answer built upon the interviews:

Manufacturing firms need suppliers to do everything that is not core for their company. If they don’t have the right degree of sourcing, then they are vulnerable



The practice of early supplier involvement brings the suppliers and the manufacturing firms close together in sharing both knowledge as well as the manufacturing risks.

to the fluctuations in the market. Therefore, they need suppliers to produce best possible quality at the lowest cost, achieve sustainable competitive advantage, and reduce the complexity of the product. Suppliers possess many competences that the buying firms might not have; so, it is pertinent to transfer those competencies into new product development. Every firm has predefined criteria

for selecting suppliers; however, this process is not much effective. Therefore, practicing sourcing innovation equips firms with an effective way to identify right suppliers as well as evaluate them on the components of competitive advantage.

It is also clear from the interviews that sourcing personnel are given training annually and only if any gap exists. Their training focusses predominantly on developing suppliers. However, they do not have any formalized training. Since sourcing innovation mandates frequent training as well as cross-functional training, its practice could subsequently lead to an invaluable contribution to the firm’s sustainable growth.

At present, as indicated by one of the interviewee, most of the buying firms are not working closely with their suppliers in developing new products. But by practicing sourcing innovation, the buying firm can work much closer with their suppliers and subsequently create inter-organizational trust and value together. While firms do realize the importance of involving their suppliers before the design of the product is frozen, they do not actively try to integrate their suppliers at an early stage. One of the respondents said that “the earlier the supplier involvement, the better the supplier’s design influence on the product”. It was also evident from the interview that the sooner the firms engage suppliers, the better their chances of winning additional market share. Some sourcing innovation scholars also claim that suppliers should be involved during the fuzzy front end (FFE) phase in order to strengthen the collaboration and increase product success rate.

This article undoubtedly demonstrates the existence of sourcing innovation among firms. However, based on the insights gleaned, firms are not practicing it effectively and do not have a true strategy at large. At the same time, this research underlines that organizations should exercise sourcing innovation through surplus strategic collaboration which primarily includes involvement of suppliers much well before the design is frozen. In conclusion, such a strategic collaboration will not only bring in win-win innovations and achieve sustainable competitive advantage, but also provide firm the ability to evaluate the various success and failure formulae within sourcing innovation. /

#### Notes

Slowinski, G., Hummel, E., Gupta, A., and Gilmont, E.R. (2009): “Effective practices of sourcing innovation”, *Research-Technology Management*, Vol. 52, No. 1, pp. 27-34.