

# **Beyond the ‘trusted advisor’**

The impact of client-professional relationships on the  
client’s selection of professional service firms

by

Tale Skjølsvik

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for the degree of PhD

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**BI Norwegian Business School**

Tale Skjølsvik

Beyond the 'trusted advisor'  
- The impact of client-professional relationships on the client's selection of  
professional service firms

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## **The Tree of Life**

Sometimes I dream of a tree, and the tree is my life.  
One branch is the man I shall marry, and the leaves my children.  
Another branch is my future as a writer and each leaf is a poem.  
Another branch is a glittering academic career.  
But as I sit there trying to choose,  
the leaves begin to turn brown and blow away  
until the tree is absolutely bare.

From the movie 'Sylvia' about the life of author Sylvia Plath,  
directed by Christine Jeffs, written by John Brownlow, Alliance Atlantis, 2003.



## **Abstract**

Relationship based advantages and competitive advantages are often assumed to belong to different paradigms in management research. While authors have pointed out that companies compete and have relationships at the same time, relatively limited research has been done which integrates these perspectives. This study integrates the resource based view (RBV) with a stakeholder and interconnected view on firms and takes a customer oriented perspective on value creation to propose an 'open' version of the RBV. In taking this view, the relational and competitive perspectives of strategy are integrated in a way that offers a contribution to existing theory.

Based on this theoretical starting point, this study answers the following research question: How do client-professional relationships impact the client's selection of professional service firms? Through a combination of in-depth observation and key informant interviews with buyers and suppliers, more than 200 purchasing processes were included as empirical evidence. Three main sources of relationship benefits were found: contextual knowledge, chemistry and past satisfaction. While trust was extensively mentioned among the professionals, it was not emphasized by buyers. This study in fact suggests that buyers have professionalized and largely moved 'beyond' relying on 'trusted advisors' for professional services. In addition to the benefits, two main sacrifices were identified: lack of work effort and knowledge loss. These two sacrifices to an extensive degree seemed to restrain buyers from continuing their existing relationships.

While past research on purchasing processes has emphasized 'one type fits all' generic processes, this study proposes a multifaceted typology of purchasing processes related to professional services. Also, the study gives an integrated overview of relevant selection criteria that buyers use in their selection of professional service providers. The study also suggests that the selection of professional service firms takes place in two main phases: In the selection of purchasing process and in the selection of the particular supplier within a given process.

Through the empirical research presented here, two concepts were identified that seem useful for research on PSF strategy in particular and business strategy more generally: "relatition" and mutual knowledge asymmetry. Relatition reflects a market structure where buyers have multiple relationships to suppliers, but make all suppliers with a relationship compete for assignments. Mutual knowledge asymmetry extends the existing concept of information asymmetry, but recognizes that in knowledge based customized services the asymmetry is not one-sided. While the professionals

might have superior esoteric professional knowledge, the client has superior knowledge of the problem and context. The 'open' RBV, relation and knowledge asymmetry are proposed as keywords for a new research agenda within the study of PSFs in particular and the field of strategy more generally.

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But to me – and as illustrated by the poem above - life is about much more than work. My family represents an essential source of energy that has enabled me in my work. Dear Sverre – your creative ideas and ability to focus on what is essential have been vital in the process of developing my thoughts. Thank you for pushing me to become a better and more relevant researcher. June and Juli: your smiles make me want to become a better person. And finally, to my mom and dad, thank you for all the support and help you have provided that has allowed me to do this work.

## Table of Contents

Abstract .....	i
Acknowledgements .....	iii
Prologue.....	xv
<b>PART I: INTRODUCTION .....</b>	<b>1</b>
Chapter 1: Point of departure .....	1
1.1 Personal motivation .....	1
1.2 Relevance and importance .....	2
1.2.1 PSFs as engines .....	2
1.2.2 Selection of PSFs as important for success .....	3
1.2.3 Client-professional relationships as key sources of value... 5	
1.3 Elaboration of research question .....	6
1.4 Contributions .....	7
1.4.1 Theory .....	9
1.4.2 The research questions .....	11
1.4.3 Practical and normative implications .....	16
1.5 Thesis overview.....	16
<b>PART II: THEORETICAL FOUNDATION .....</b>	<b>19</b>
Chapter 2: Theory selection .....	19
2.1 Theoretical starting point.....	19
Chapter 3: The resource based view of the firm (RBV).....	21
3.1 Introduction.....	21
3.2 The theoretical starting point of the RBV .....	21
3.2.1 Core claims of the RBV .....	21
3.2.2 Theoretical developments beyond the core claims.....	24
3.2.3 Summary and point of departure .....	26
3.3 RBV research within the identified white spots .....	29
3.3.1 RBV research on value and competitive advantage (CA) as determined in demand side markets.....	29
3.3.2 Firm resource control within the RBV .....	31
3.4 Conclusion and beyond.....	34
Chapter 4: Professional service firms (PSFs) as theoretical foundation and empirical setting .....	36
4.1. Introduction.....	36
4.2 Definition and conceptualization of PSFs .....	37
4.2.1 Professional workforce .....	39
4.2.2 Intangible services .....	40

4.2.3 The firm.....	42
4.3 PSFs and related concepts .....	43
4.4 Types of PSFs .....	45
4.5 Sources of CA in PSFs .....	47
4.5.1 Qualitative research on the CA of PSFs.....	48
4.5.2 Quantitative tests of the different sources of CA .....	51
4.5.3 Summary and point of departure .....	52
4.6 Research into client-professional relationships as sources of CA of PSFs.....	55
4.7 Summary and point of departure .....	57
<b>PART III: THEORETICAL DEVELOPMENT AND CONCEPTUAL MODEL .....</b>	<b>59</b>
<b>Chapter 5: Theoretical development: ‘The open RBV’ .....</b>	<b>60</b>
5.1 Introduction.....	60
5.2 Demand-side based CA .....	60
5.2.1 CA redefined .....	61
5.2.2 Customer buying criteria as antecedents of net customer value .....	64
5.3. Partially firm controlled resources within the RBV .....	65
5.3.1 The relational view and its extensions .....	66
5.3.2 The stakeholder based RBV .....	69
5.4 The ‘open RBV’ .....	69
5.5 Summary and point of departure .....	72
<b>Chapter 6: Conceptual model .....</b>	<b>74</b>
<b>Chapter 7: Customer value in professional services .....</b>	<b>78</b>
7.1 Introduction.....	78
7.2 Customer benefits of professional services .....	79
7.2.1 Ex ante value creation .....	79
7.2.2 Value creation during an assignment .....	81
7.2.3 Ex post value creation .....	82
7.2.4 Summary of customer benefits in professional services ...	83
7.3 Customer sacrifices in professional services .....	83
7.3.1 Price.....	84
7.3.2 Acquisition cost.....	84
7.3.3 Operation cost.....	84
7.4 Summary and point of departure .....	85
<b>Chapter 8: Client purchasing processes.....</b>	<b>86</b>
8.1. Introduction.....	86
8.2 One generic process.....	86

8.3 Multiple purchasing processes.....	88
8.4 Summary and point of departure .....	91
Chapter 9: Client selection criteria.....	92
9.1 Introduction.....	92
9.2 Review of existing research on client selection criteria .....	92
9.3 Typology of selection criteria as potential sources of CA.....	94
9.4 Client-professional relationships as a selection criterion .....	95
9.5 Summary and point of departure .....	99
Chapter 10: The client-professional relationship .....	101
10.1 Introduction.....	101
10.2 Understanding business relationships.....	101
10.2.1 Business relationships as repeated exchange .....	101
10.2.2 Business relationships as social connections.....	102
10.3 Understanding the client-professional relationship .....	103
10.4 The client-professional relationship defined .....	104
10.5 The nature of the client-professional relationship .....	106
10.5.1 Relevant relationship dimensions.....	106
10.5.2 Client-professional relationship typologies.....	114
10.6 Single versus multiple relationships .....	118
10.7 Summary and point of departure .....	119
Chapter 11: Net customer value of the client-professional relationship .....	120
11.1 Introduction.....	120
11.2 Customer relationship benefits in general .....	120
11.3 Client relationship benefits in professional services .....	122
11.3.1 Trust.....	123
11.3.2 Partner specific norms and routines .....	126
11.3.3 Partner specific knowledge .....	127
11.3.4 Customization.....	128
11.4 Relationship sacrifices .....	129
11.4.1 Price.....	129
11.4.2 Acquisition cost.....	129
11.4.3 Operation costs .....	130
11.4.4 Knowledge loss .....	130
11.5 Summary and point of departure .....	131
Chapter 12: Contingency factors .....	132
12.1 Introduction.....	132
12.2 Contingencies for the use of relational purchasing processes .....	132

12.2.2 Organizational and group based factors .....	135
12.2.3 Individual factors.....	137
12.2.4 Situational factors.....	138
12.3 Contingencies determining the value of client-professional relationships .....	139
12.3.1 Environmental .....	139
12.3.2 Situational contingencies.....	141
12.4 Summary and point of departure .....	141
<b>PART IV: EMPIRICAL STUDY.....</b>	<b>143</b>
Chapter 13: Research design .....	143
13.1 Research orientation .....	143
13.1.1 Theory and philosophy.....	143
13.1.2 Ontology and epistemology.....	143
13.1.3 Deduction and induction .....	144
13.2 Research methodology.....	145
13.2.1 Arguments for choice of research methodology .....	145
13.2.2 Research strategy.....	147
13.3 Data collection and analysis .....	154
13.3.1 Data collection.....	154
13.3.2 Data analysis.....	169
<b>PART V: EMPIRICAL FINDINGS.....</b>	<b>173</b>
Chapter 14: Client purchasing processes.....	175
14.1 Introduction.....	175
14.2 In-depth cases .....	175
14.2.1 Case 1a and 1b in RedOrg.....	175
14.2.2 Case 2 in YellowOrg .....	186
14.2.3 Case 3 in BlueOrg .....	189
14.2.4 Summary of insight from in-depth cases.....	192
14.3 Interview based data .....	196
14.3.1 Purchasing processes in the private sector .....	197
14.3.2 Selection among suppliers in parallel frame agreements in the public sector.....	206
14.4 Summary and typology of purchasing processes.....	207
Chapter 15: Client selection criteria.....	210
15.1 Introduction.....	210
15.2 In-depth cases .....	211
15.3 Interview based data .....	212
15.4 Description of key selection criteria.....	216

15.4.1 Input based criteria .....	216
15.4.2 Assignment based criteria .....	226
15.4.3 Economic selection criteria .....	233
15.4.4 Relational selection criteria beyond relationships.....	236
15.5 Summary of criteria and point of departure.....	241
Chapter 16: The client-professional relationship and its impact on the client's selection of PSF .....	245
16.1 Introduction.....	245
16.2 The client-professional relationship defined .....	246
16.2.1 Firm level relationship.....	247
16.2.2 Individual level relationship.....	251
16.2.3 Summary and point of departure .....	256
16.3 Relationship impact on the purchasing process.....	257
16.3.1 Firm level impact.....	257
16.3.2 Individual level impact.....	258
16.4 The impact of client client-professional relationships on client perceived relationship value.....	261
16.4.1 Relevance of client-professional relationship and its subdimension for client selection .....	261
16.4.2 Description of relationship benefits and sacrifices.....	262
16.4.3 The impact of the benefits and sacrifices on client perceived value .....	273
16.4.4 Interaction effects across the client relationship value dimensions .....	280
16.4.5 Overview of the impact of client-relationships on client's perceived value and selection .....	282
16.5 Summary of insight on client-relationship impact .....	283
Chapter 17: Contingencies of the client-professional relationship impact .....	285
17.1 Introduction.....	285
17.2 Environmental contingencies.....	285
17.2.1 Regulation .....	285
17.2.2 Service industry characteristics .....	287
17.2.3 Private versus public sector.....	289
17.3 Organizational contingencies.....	290
17.4 Group and individual level contingencies .....	292
17.5 Situational contingencies .....	293
17.6 Key interaction effects.....	300
17.7 Key substitution effects .....	302
17.8 Summary of contingencies .....	302

PART VI: CONCLUSION.....	305
Chapter 18: Study contributions, quality and opportunities for future research .....	305
18.1 Introduction.....	305
18.2 Research contributions and implications .....	305
18.2.1 Contributions concerning the particular research questions .....	305
18.2.2 Theoretical contributions.....	321
18.2.3 Practical implications .....	329
18.3 Research quality.....	336
18.3.1 Measures of research quality .....	336
18.4 Research limitations.....	339
18.5 Suggestions for future research .....	340
18.6 Concluding remarks.....	345
Epilogue.....	347
APPENDIX 1: Overview of quantitative research on sources of CA for PSFs .....	349
APPENDIX 2: Interview guide .....	351
APPENDIX 3: Within firm interviews .....	353
APPENDIX 4: Across firm interviews .....	355
APPENDIX 5: Service supplier interviews.....	359
APPENDIX 6: Contingencies in In-depth cases .....	363
APPENDIX 7: Contingencies in within firm interviews .....	365
APPENDIX 8: Contingencies from across firm interviews.....	367
APPENDIX 9: Inter-rater reliability of selection criteria categories	371
REFERENCES .....	375

## List of Figures

Figure 1-1: Research model .....	7
Figure 1-2: Overview of thesis structure .....	17
Figure 3-1: Overview of RBV positioning and review .....	22
Figure 3-2: Overview of literature incorporating CA and resource value with demand side markets .....	30
Figure 3-3: Overview of research on partially firm controlled resources within the RBV .....	32
Figure 4-1: Defining features of professional service firms .....	38
Figure 4-2: Overview of interrelationship between KIFs, PSFs and MCFs .....	44
Figure 4-3: Overview of identified potential sources of CA for PSFs .....	53
Figure 5-1: Illustration of competitive advantage as NVC .....	63
Figure 5-2: Controllability of firm resources .....	66
Figure 5-3: Overview of streams of research underlying the 'open' RBV .....	70
Figure 5-4: The traditional versus the 'open' RBV .....	72
Figure 6-1: Conceptual model .....	76
Figure 6-2: Overview of chapters dealing with the parts of the conceptual model .....	77
Figure 7-1: Value creation processes in professional services .....	79
Figure 7-2: Identified areas of key benefits in professional services ..	83
Figure 7-3: Revised conceptual model .....	85
Figure 8-1: Overview of the purchasing process .....	87
Figure 8-2: Types of buyers of professional services .....	89
Figure 8-3: Revised conceptual model with purchasing process .....	91
Figure 9-1: Overview of input based selection criteria .....	96
Figure 9-2: Overview of service based and economic selection criteria .....	97
Figure 9-3: Overview of relational selection criteria .....	98
Figure 9-4: Revised conceptual model including selection criteria ..	100
Figure 10-1: Revised conceptual model including a conceptualization of the client-professional relationship .....	119
Figure 11-1: Ex ante conceptual model .....	131
Figure 12-1: Proposed relevant contingencies .....	142
Figure 13-1: Overview of dimensions on which cases have been selected .....	154
Figure 13-2: Overview of sources of data .....	157

Figure 13-3: Overview of selected in-depth cases .....	159
Figure P5-1: Overview of empirical findings on selection criteria and the impact of the client-professional relationship.....	173
Figure 14-1: Selection process in Case 1a.....	177
Figure 14-2: Selection process in Case 1b .....	182
Figure 14-3: Selection process in Case 2 .....	187
Figure 14-4: Selection process in Case 3 .....	190
Figure 14-5: Generic competitive selection process .....	194
Figure 14-6: Generic direct selection process .....	195
Figure 14-7: Generic frame agreement selection process .....	196
Figure 14-8: Overview of cases including pre-selection.....	198
Figure 14-9: Overview of alternative selection processes.....	208
Figure 14-10: Purchasing process typology in the public and private sector.....	209
Figure 14-11: Integration of the typology of the selection process into the research model.....	209
Figure 15-1: Overview of different sets of selection criteria .....	210
Figure 15-2: Overview of identified selection criteria .....	211
Figure 15-3: Interrelationship across knowledge, experience and reference list.....	223
Figure 15-4: Interrelationship between reputation, recommendation and references .....	241
Figure 15-5: Integration of selection criteria into the research model .....	244
Figure 16-1: Typology of firm based client-professional relationships.....	250
Figure 16-2: Holders of the client-professional personal relationship .....	252
Figure 16-3: Typology of individual level client-professional relationship .....	255
Figure 16-4: The client-professional relationship defined .....	257
Figure 16-5: Overview of identified relationship effects .....	258
Figure 16-6: Overview of the impact of client-professional relationships on the client's perceived value and firm selection .	283
Figure 16-7: Integration of the client-professional relationship concept and impact into the research model.....	284
Figure 17-1: Typology of APS buyers proposed by professionals ..	292
Figure 17-2: Overview of situational contingencies .....	295
Figure 17-3: Overview of key identified contingencies.....	303
Figure 17-4: Overview of the impact of need based contingencies .	304

Figure 18-1: Overview of key contributions .....	305
Figure 18-2: Overview of alternative selection processes for PSFs.	306
Figure 18-3: Multiple firm pre-selection purchasing strategy.....	308
Figure 18-4: A new paradigm of PSF buyers and buying strategies	309
Figure 18-5: The client-professional relationship .....	315
Figure 18-6: The impact of client-professional relationships on client selection .....	317

## List of Tables

Table 1-1: Main intended contributions .....	8
Table 3-1: Key insights from the RBV literature review .....	34
Table 4-1: Overview of “white spots” within PSF research .....	58
Table 9-1: Overview of studies on selection criteria of administrative professional services .....	93
Table 10-1: Integrated overview of relevant dimensions of the client-professional relationship.....	107
Table 10-2: Types of relationships and their discriminating dimensions .....	115
Table 10-3: A typology of individual level business relationships ..	116
Table 11-1: Overview of customer relationship benefits .....	121
Table 13-1: Overview of purchasing processes by service industry	158
Table 13-2: Overview of purchasing processes within management consulting .....	158
Table 13-3: Overview of informants and services involved in the across-firm interviews .....	164
Table 13-4: Overview of interviews with informants from PSFs ....	165
Table 14-1: Overview of documentation for pre-qualification .....	178
Table 14-2: Overview of selection processes in the in-depth cases .	193
Table 15-1: Overview of criteria by frequency .....	213
Table 15-2: Overview of criteria by source.....	214
Table 15-3: Overview of identified selection criteria .....	242
Table 16-1: Overview over relationship based selection criteria .....	261
Table 16-2: Overview of key dimensions of client-relationship value.....	263
Table 18-1: A ‘traditional’ and new client based view on PSFs .....	327
Table 18-2: Evaluation of research quality .....	337

## Prologue

I am in the initial team meeting regarding a competitive proposal for a target client. The manager coordinating the initiative is making suggestions on how to proceed with the work: “The company’s cost base shows that its costs are much higher and have been increasing more rapidly than the firm’s competitors. Looking at the number of products the company sells, it might be a good idea to explore the opportunity to save costs through a product complexity-reduction initiative - or we could look for cost savings through coordination of purchasing volumes across locations.” One of the consultants adds: “Yes, in the cost cutting project I was part of just before Christmas we were able to identify a cost saving potential of 3% of operating costs – 7 million dollars – based on among other things complexity-reduction and purchasing coordination. This might be the way to go.”

The partner breaks in: “Wait a minute - I know these guys - especially the CEO. Whilst they represent a listed company focusing on short term market expectations, they strive to have a long-term orientation on what they are doing. Rather than focusing solely on the short-term cost reduction in our proposal, we should balance our advice relative to the long-term value of the company. The core of their business is being a one-stop-shop – and reducing the complexity could easily hurt their value proposition. We should take the position that while extensive short-term cost-cutting can be done and will impact the performance of the company, it might not be advisable from a long-term point of view. To determine what initiatives should be adopted, an in depth analysis of costs as well as revenues is needed. Taking such an approach could differentiate us from the competitors, who - unless they know the company and CEO as well as I do - are likely to approach the company’s and the CEO’s problems with ‘obvious’ short-term cost-cutting initiatives.”

Our firm won the project for the client under the working title: ‘Value-strategy 2010’. As an associate consultant just getting to know the consulting business, I found that the work on the proposal triggered a question that constantly repeated itself across clients and projects: How in fact do client-consultant relationships impact client selection decisions? One way to find out would be to do a PhD...



## **PART I: INTRODUCTION**

### **Chapter 1: Point of departure**

#### **1.1 Personal motivation**

The research presented in the following is inspired by my own experience as a management consultant, which includes similar situations as the one described in the illustrative case example in the prologue. Through working on different projects and with different clients I saw that while some clients are extremely professional when it comes to buying and using consultants, others falter in this area. Based on these experiences, I became interested in developing a more in-depth understanding of how clients choose between consulting firms and the criteria they use in making this choice. Understanding client selection processes and criteria across client firms is essential for consulting firms to develop a thorough understanding of available sources of competitive advantage. For clients, developing such knowledge is vital in order to understand how buying processes and decisions could be improved.

Another thing that stood out in both consulting companies where I worked was the perceived importance of client relationships as a source of competitive advantage. On my first day at Bain & Company I was in fact given only one book to read: *'The Loyalty Effect'* (Reichheld & Teal, 1996). In short this book points out that the development of long term customer relationships correlates with firm profitability. I also saw the benefits of client relationships when working as a consultant. In the assignments I was involved in, including both analysis and implementation intensive projects, getting access to information and working with, as opposed to for, clients were key success factors.

As I was starting the work on my PhD thesis, studying clients' selection processes of consulting firms and developing a more in-depth understanding of the client-consultant relationship as a source of competitive advantage both seemed to be interesting avenues of research. In fact, by integrating these two areas of interest and by viewing consulting firms as professional service firms, I arrived at the research question that will be explored in the following:

*'How do client-professional relationships impact the client's selection of professional service firms?'*

## **1.2 Relevance and importance**

The relevance and importance of studying buyer selection of professional service firms (PSFs) and client-professional relationships are, however, much more general than my own experience. The primary concern of researchers within strategic management is to understand why some firms perform better than others. Being a scholar rooted in this research tradition, this fundamental concern also drives the research presented here. As pointed out by Normann and Ramírez (1993: 65):

*Strategy is the art of creating value. It provides the intellectual frameworks, conceptual models, and governing ideas that allow a company's managers to identify opportunities for bringing value to customers and for delivering that value at a profit. In this respect, strategy is the way a company defines its business and links together the only two resources that really matter in today's economy: knowledge and relationships or an organization's competencies and customers.*

The research presented in the following deals with one of these resources: the client-professional relationship. A main objective of the work is to develop both intellectual frameworks and conceptual models – and hopefully some governing ideas on how relationships can be used by firms to enhance their competitive advantage.

To argue for the importance and relevance of the research presented in the following, three main points are particularly relevant and will be treated below:

- (1) PSFs are engines of the post-industrial knowledge based society (1.2.1).
- (2) Selection of PSFs is important for client and professional service firm success (1.2.2).
- (3) Client-professional relationships are key sources of customer value and competitive advantage in the post-modern society (1.2.3).

### **1.2.1 PSFs as engines**

Firms in professional service industries generate almost \$1 trillion of revenues globally every year (Lorsch & Tierney, 2002; Byrnes, 2005; Parker, 2005) and have a significant impact on the world economy. In fact, the notion of advanced economies is built around the presence of professional service industries (Aharoni, 1993; Sharma, 1997; Greenwood, Hinings & Cooper, 2006; Brock, Powell & Hinings, 2007)

A key characteristic of the post-industrial knowledge based society is that knowledge replaces property as the key production factor (Bell, 1973;

Crook, Pakuliski & Waters, 1992; Hage & Powers, 1992). PSFs represent important engines in the development of the knowledge economy (Lorsch & Tierney, 2002; Brock et al., 2007), which is largely dependent on innovation through the application of new knowledge by knowledge workers, rather than the use of existing knowledge by traditional labor (Newell, Swan, Scarbrough & Robertson, 2009). In fact, PSFs are often pointed out as role models for other organizations that compete on knowledge (Economist, 2006). As there is a growing interest in developing a better understanding of knowledge as a source of advantage, and as knowledge is a key source of advantage for PSFs (Kochan & Blair, 2000), an increasing number of scholars are looking at these firms to understand the impact of the greater importance of human capital and knowledge in firms (Løwendahl, 1997; Donaldson, 2001; Hitt, Bierman, Shimizu & Kochhar, 2001; Løwendahl, Revang & Fosstenløkken, 2001; Teece, 2003; Greenwood, Li, Prakash & Deephouse, 2005; Von Nordenflycht, 2007).

PSFs have also been pointed out as extremes in terms of the internal and external complexity they face (Løwendahl & Revang, 1998; 2004). As handling such complexity is becoming an increasingly important success factor for a growing number of organizations, understanding PSF management can help companies understand how to ‘manage for the future’. Scholars in fact refer to PSFs as ‘the firm of the future’ (Dunn & Baker, 2003), and the marketing and management guru Tom Peters proposes that the PSF is ‘the best model for tomorrow’s organization in any industry’ (Maister, 1993: back side cover). As pointed out in *The Economist* (2006: 9): *‘Central to much thinking about how organizations should be restructured for the 21st century is the idea that innovation and growth will depend more and more on so-called knowledge workers...[and]...the organization in which every member is a knowledge worker already exists: it is the professional-service firm, the organizational structure favored by lawyers, accountants and consultants...’*

Thus, in the post-industrial society, the understanding of value creation by PSFs is likely to have wide applicability beyond these firms – making them relevant and important.

### **1.2.2 Selection of PSFs as important for success**

PSFs impact companies and industries indirectly through their advice (Nachum, 1996; Løwendahl et al., 2001) and often function as opinion makers (Løwendahl et al., 2001). In this way, they have a significant impact on the functioning of organizations. While clients and professionals often share incentives to hide existing problems as a result of their own stakeholding in an assignment, the impact of the work of professionals can

be detrimental (O'Shea & Madigan, 1997). Thus, poor buyer selection decisions can easily lead to poor client performance (Mitchell, 1994; West, 1997; Soriano, 2001; Mitchell, Moutinho & Lewis, 2003; Schiele, 2005; Schiele & McCue, 2006). As pointed out by Day and Barksdale (1994: 44): *'Selecting a professional service provider can be one of the most important decisions and potentially one of the costliest mistakes a client firm can make.'*

The nature of professional knowledge intensive services often makes it difficult to evaluate their outcome even after a service provider has been involved with a client. Thus, these types of services are often referred to as credence goods (Darby & Karni, 1973; Howden & Pressey, 2008). This characteristic makes it difficult to objectively evaluate the outcome and the actual competence of different suppliers. Thus, clients use qualitative clues in making their decisions (Starbuck, 1992; Day & Barksdale, 1994; Day & Barksdale, 2003). However, only limited in-depth research has been performed to understand these clues and selection criteria. Developing a better understanding of these clues and criteria is relevant and important to guide companies in their selection of PSFs – and to ensure that they avoid costly mistakes.

Research suggests that clients are becoming increasingly professional in terms of how they purchase and use professional services (Gaedeke & Tootelian, 1988; Mohe, 2005). However, there is still, in the public sector at least, significant variation in the level of professionalization (Roodhooft & Van den Abbeele, 2006). One important trend in terms of professionalization is that clients, to an increasing degree, are involving purchasing professionals in these types of decisions; both in the public (Schiele, 2005; Roodhooft & Van den Abbeele, 2006; Schiele & McCue, 2006) and private sectors (Werr & Perner, 2007). In turn, the purchasing professionals are likely to contribute to increased formalization (Carter & Carter, 1998; Pettijohn & Qiao, 2000; Schiele & McCue, 2006). The spiral of involvement is therefore likely to impact how professional services are purchased; the criteria that are used; and, in particular, the degree to which personal relationships determine the selection of firms (Werr & Perner, 2005).

While past literature has portrayed clients as helpless victims of consultants and other externally hired professionals (Clark, 1995b; Clark & Salaman, 1996; Sturdy, 1997; Alvesson & Johansson, 2002; Clark & Fincham, 2002), professionalization of purchasing suggests that the position of the client relative to the professional is changing. This changing balance of power has been seen in, among others, the consulting market (Niewiem & Richter, 2004). These changes are likely to impact the criteria clients use in selecting professional services, including how relationships are used. Developing a

better understanding of how relationships impact selection under these changed conditions is relevant and important.

The selection of professionals is, however, not only important for buyers, but also for the PSFs. Studying client selection provides important insight into why some firms are selected over others and why they have a competitive advantage. As pointed out by Mitchell (1998: 83), regarding professional services: *'Understanding the nature of customers' fears and the way they prefer to have them reduced could confer significant competitive advantage on suppliers who possess such knowledge.'* Thus, the research presented in the following is not only relevant and important for clients, but also for PSFs.

### **1.2.3 Client-professional relationships as key sources of value**

A key characteristic of the post-industrial era is that services rather than products drive much of the value creation. Key characteristics of value creation in services are buyer-seller co-production and customization (Ramírez, 1999; Vargo & Lusch, 2004). This form of value creation is highly dependent on buyer-seller interaction. The working relationship between the two is therefore particularly important, and further developing an understanding of relationships is therefore relevant and useful.

The knowledge intensity of the post-industrial society implies that knowledge intensive services are characterized, to an extensive degree, by information asymmetry across buyers and sellers and should be categorized as credence goods. Past research suggests that using the same supplier across different types of services – and developing a firm relationship – is one way that buyers try to reduce risk in the case of credence goods (Nayyar, 1990; Nayyar & Templeton, 1991; Nayyar, 1993). Thus, studying relationships is important and relevant not just to further develop an understanding of value creation in professional services, but also to understand value creation in the post-industrial era.

In past research, risk has been identified as important in client selection of professional service firms (Mitchell, 1994), and reducing this risk is seen as particularly relevant for buyers (Mitchell, 1994; Mitchell et al., 2003). Research on planning consultants, however, suggests that using the same PSFs across projects is not an important risk reducing strategy. While this could be linked to the lack of credence service nature within planning consulting, the contradictory results across generic and specific research on professional services suggest that insight could be gained from in-depth research to identify the contingencies of the relevance of relationships. Thus, by studying client-professional relationships in PSFs, new understanding

may be gained not only of their relevance for PSFs, but also about their relevance in post-industrial knowledge based value creation in general.

### **1.3 Elaboration of research question**

The research presented here aims to contextually explore how the client-professional relationship impacts client selection of PSFs. In developing an understanding of this research question it seems essential to understand three main topics: (1) client selection of PSFs, (2) the client-professional relationship, and (3) the impact of the relationship on the selection. These different topics correspond to the dependent variable, the independent variable and the impact of the independent variable on the dependent variable. Thus, in detail, the research question includes the following sub-questions related to each of these three topics. These will be considered in depth in this thesis:

- (A) Client selection of PSFs
  - 1. *How are PSFs selected by clients?*
  - 2. *What criteria are used for selection?*
- (B) The client-professional relationship
  - 3. *What is a client-professional relationship?*
- (C) Impact of the client-professional relationship
  - 4. *How does the client-professional relationship impact the client's selection?*
  - 5. *What are the contingencies of the impact?*

To understand client selection of PSFs it is essential to understand the buying process – in terms of how the PSFs are selected. It is also vital to understand the criteria that are used, which says something about the relevant dimensions that clients evaluate in their selection. These criteria represent alternative sources of value for clients – and reveal a great deal about potential sources of competitive advantage for PSFs.

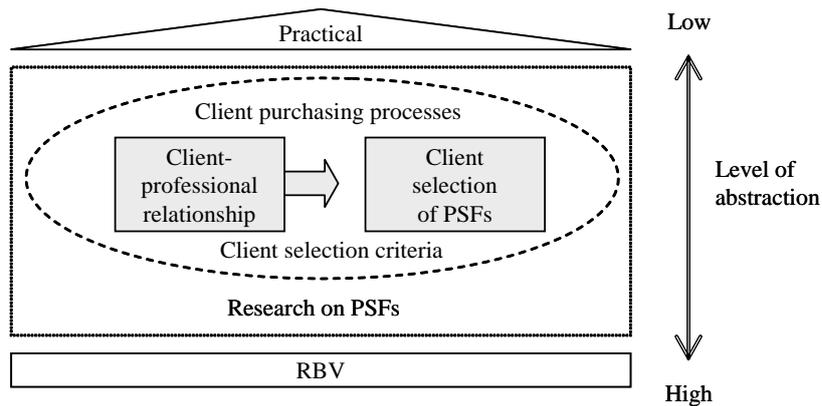
In turn, the client-professional relationship represents a very complex and multifaceted concept, which must be clarified; in order to understand what the research presented in the following is about. Different research traditions have different perspectives on relationships and it is essential to define what is meant by the client-professional relationship in the following.

Finally, two subsidiary research questions are included that address the impact of the relationships on client selection. One of the questions concerns

the ways in which client-relationships impact client selection. The other question concerns the relevance of these different types of impact under different types of situations or conditions, which in the following will be referred to as contingencies.

Based on the main research question, a research model is shown in Figure 1-1. The research builds on two main theoretical research traditions: (1) The resource based view of the firm (RBV) and (2) research on PSFs. These two research traditions frame the research that is presented in the following. While the RBV is relatively abstract and applicable across diverse contexts, research on PSFs is more contextualized. Thus, PSF research not only functions as a theoretical point of departure, but also as a research context – as illustrated by the center square in Figure 1-1. Finally, the practitioner perspective is incorporated into the research – both as a starting point and as an area of intended contributions.

Figure 1-1: Research model



### 1.4 Contributions

Building on the research model shown in Figure 1-1, the research presented in the following intends to make contributions in three main ways: (1) by developing theory, (2) by answering the main and the subsidiary research questions, and (3) by adding understanding to guide the conduct of practitioners. An overview of the contributions is shown in Table 1-1 and briefly presented in the following. Implications are treated in depth in Chapter 18.

Table 1-1: Main intended contributions

	Area	Relevant “white spots”	Intended contributions
Theory	• RBV	<ul style="list-style-type: none"> <li>• Traditional RBV does not account for demand side markets</li> <li>• Assumptions of the traditional RBV make it difficult to include resources that are only partially controlled by the firm</li> <li>• Need for more research within the contingent RBV</li> </ul>	<ul style="list-style-type: none"> <li>• The ‘open’ RBV                             <ul style="list-style-type: none"> <li>- Firms as interconnected and dependent on stakeholders</li> </ul> </li> </ul>
	• PSFs	<ul style="list-style-type: none"> <li>• Lack of understanding of client value and relationship based value and competitive advantage</li> <li>• Mainly practitioner based and PSF oriented contributions</li> </ul>	<ul style="list-style-type: none"> <li>• Research based understanding of client value and relationship based competitive advantage</li> <li>• Market characteristics of professional services                             <ul style="list-style-type: none"> <li>- Relation</li> <li>- Mutual knowledge asymmetry</li> </ul> </li> </ul>
Research questions	• Selection – Processes – Criteria	<ul style="list-style-type: none"> <li>• Limited research on process typologies beyond one generic process</li> <li>• Lack of in depth research and overviews of client selection criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Typology of purchasing processes</li> <li>• Overview of selection criteria</li> </ul>
	• Client - professional relationships	<ul style="list-style-type: none"> <li>• Lack of in depth research that integrates the firm and individual level of business relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Conceptualization of the client-professional relationship in particular and interorganizational relationships in general as both individually and firm based</li> </ul>
	• The impact of the relationships on selection	<ul style="list-style-type: none"> <li>• Limited research on customer relationship value and customer value of service relationships</li> <li>• Very limited research on the impact on client selection</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge on the alternative ways in which the relationship impacts selection                             <ul style="list-style-type: none"> <li>- Including impact at both the firm and individual level</li> </ul> </li> <li>• Insight on dimensions of the customer relationship value                             <ul style="list-style-type: none"> <li>- From trust to chemistry and contextual knowledge</li> </ul> </li> </ul>
	• PSFs	<ul style="list-style-type: none"> <li>• Need for more in depth knowledge on buyer processes</li> <li>• Need for more in depth understanding of buyer value                             <ul style="list-style-type: none"> <li>• In particular client relationship value</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Conceptualizations of value to support marketing efforts                             <ul style="list-style-type: none"> <li>- Classification of buyers which supports selection of clients by PSFs</li> </ul> </li> <li>• Insight of value for staffing, recruitment, and contextual knowledge development and transfer</li> </ul>
Practitioners	• Clients	<ul style="list-style-type: none"> <li>• Arbitrary approach to PSF selection among private buyers</li> </ul>	<ul style="list-style-type: none"> <li>• Insight on alternative types of processes and their applicability across situations</li> <li>• Chemistry and contextual knowledge as essential dimensions for client achievement from professional services</li> </ul>

### 1.4.1 Theory

As shown above, the research presented in the following has two main theoretical points of departure: (1) the RBV and (2) theory on the professional service firm.

(1) *The RBV*. In the following, client-professional relationships are seen as resources to the PSF – and it is assumed that by understanding client value perceptions of these resources, it is possible to understand something about the competitive advantage of the PSF. This perspective is developed from empirical research within professional services (Løwendahl, 1992, 1997, 2005) – where professionals perceived these resources as among the most important for the firm. In applying this perspective to the research question under study above, two main weaknesses of the existing conceptualization of the RBV were identified: (a) its inability to account for demand side markets and (b) the problems of including partially firm controlled resources within the perspective.

The traditional resource based view of the firm (RBV) focuses primarily on the sustainability of resource based advantages resulting from isolating mechanisms (Rumelt, 1984), also referred to as resource position barriers (Wernerfelt, 1984). However, in the elaboration of the perspective, the demand side market has been linked to the perspective in trying to understand resource value and competitive advantage (Barney, 1991). Later scholars point out, however, that this link is problematic, as the traditional RBV sees the demand side as exogenous to the perspective (Priem & Butler, 2001a, b).

Following its origin within economics, the traditional RBV considers firms as atomistic with strict borders. This assumption implies that the notion of firm resource control – which cuts across definitions – does not fit well with the actual use and insight gained from the RBV. In fact, empirical research within the RBV suggests that intangible resources, which to some extent could exist outside the borders if an atomistic notion of the firm is applied, are among the most strategic resources of firms (e.g. Hall, 1992, 1993; Barney & Hansen, 1994; Hitt et al., 2001).

The research presented in the following builds on two recent additions to RBV research: the relational view and its extension (Dyer & Singh, 1998; Lavie, 2006) and the stakeholder based RBV (Coff, 1999; Kim & Mahoney, 2002; Foss & Foss, 2005; Kim & Mahoney, 2006) and aim to ‘open’ and re-conceptualize the traditional RBV. In particular, it revises the assumption of the atomistic and unitary firm and rather views firms as interconnected and consisting of stakeholders. By revising the assumption about the nature of

firms, the perspective can clearly account for resources that are partially controlled and can incorporate demand side markets, resource value and competitive advantage. Thus, the conceptual revision helps the perspective meet some of the existing critique.

In addition to making a conceptual contribution to the RBV, the research presented in the following adds to the development of a contingent RBV (Miller & Shamsie, 1996; Brush & Artz, 1999), in addressing relevant contingencies of resource value. In particular, relevant contingencies of the value of client-professional relationships are explored in depth.

(2) *Research on professional service firms.* The significance of client relationships as a source of competitive advantage in professional service firms is widely recognized (Maister, 1993; Liedtka, Haskins, Rosenbaum & Weber, 1997; Dawson, 2000; Maister, Green & Galford, 2000; Hitt et al., 2001; Bettencourt, Ostrom, Brown & Roundtree, 2002). However, most of the work that has been done to understand these relationships is based on practitioner studies or a limited number of case studies and from a PSF point of view. This ‘internal’ as opposed to ‘external’ orientation could be linked to the muted competition for professions – as they are regulated through certification and self-control (Von Nordenflycht, 2010). However, as competition is increasing and the client becomes more professional, it is important to develop a more market oriented understanding of the competitive advantage of PSFs, as addressed above. This need is also driven by the fact that the relationships are co-controlled by both the PSF and the client, and developing an in-depth understanding of both parties is essential. The insight presented in the following adds to existing research on the competitive advantage of PSFs in general and relationship based advantages in particular. It does this by taking a research approach rather than a practitioner approach and by taking a client as opposed to a PSF point of view.

In addition to understanding sources of competitive advantage, the research presented in the following adds to existing knowledge on the nature of competition in knowledge intensive service industries. In particular, a specific type of vertical market structure was identified, which in the following will be referred to as *relatition*®. *Relatition* refers to a market structure where multiple sellers have relationships to the same buyer – but where the PSFs compete or are selected directly for a given assignment. *Relatition* is similar to co-opetition (Brandenburger & Nalebuff, 1996) in the sense that it represents a structure that combines competition and co-operation. Co-opetition, however, concerns the horizontal market structure by focusing on the integration of co-operation for market growth and competition for market share. Conversely, *relatition* concerns the vertical

market structure where buyers sequentially and in parallel use both relational and competitive approaches to supplier selection. In this way, buyers utilize both competitive and relational governance mechanisms. Through the research presented in the following, insight into relevant value drivers and sources of competitive advantage in such markets is presented. In particular, contextual knowledge, chemistry, firm size, and price were pointed out across buyers as being such relevant drivers. Based on the study of process contingencies, the study also suggests conditions under which relation is likely to be particularly relevant.

Additionally, past classifications of professional services point to information asymmetry as an important characteristic of professional services (Løwendahl, 1992; Clark, 1993; Løwendahl, 1997; Skaggs & Snow, 2004). In these classifications, information asymmetry is used to illustrate a situation where the client has less knowledge than the PSF in the area of expertise of the professional service firm. The information asymmetry is often linked to moral hazard and adverse selection on the part of the client. The research presented in the following, however, illustrates that the asymmetry is not unilateral in the sense that the PSF knows more than the buyer. Rather, the asymmetry is mutual in the sense that while the PSF might have superior esoteric professional knowledge, the buyer has an advantage in terms of contextual knowledge of the problem and the context. And both the professional and the contextual knowledge are essential to co-produce a solution to the problem at hand. Thus, the nature of professional services should not be referred to as characterized by one sided information asymmetry, but rather by *mutual knowledge asymmetry*. It is the duality of the knowledge asymmetry that enables the buyer to demand that PSFs refrain to relational market structures where they need to invest in contextual knowledge, while they at the same time compete on price. From a PSF perspective, the customized nature of professional services suggests that context knowledge represents a key source of competitive advantage in these types of firms. This type of knowledge has only been considered to a limited degree in past research.

#### **1.4.2 The research questions**

As illustrated in Figure 1-1, the research presented here orients around two main concepts: (A) client selection and (B) the client-professional relationship. In particular, the research aims to develop an enhanced understanding of (C) the impact of the client-professional relationship on client selection. Thus, contributions are intended to develop a better understanding of the core concepts as well as the relationship between these concepts.

*(A) Client selection*

In understanding client selection, two main issues are particularly important: how the professional services (PSs) are purchased and what purchasing criteria are used. With respect to how purchasing is done and the types of processes used, a main trend has been to develop a generic ‘one type’ understanding of purchasing processes (Robinson, Faris & Wind, 1967; Webster & Wind, 1972; Stock & Zinszer, 1987; Weele, 2005) – and not differentiated typologies of how selection is done. Relative to purchasing criteria, many quantitative studies have been done to map the use of different types of criteria within particular industries (e.g. Lynn, 1986; Dawes, Dowling & Patterson, 1992a; Day & Barksdale, 1994; Poulfelt & Payne, 1994; Clark, 1995a; Day & Barksdale, 2003; Na, Marshall & Son, 2003). However, existing research seems to list criteria relatively arbitrarily, and only argues for the inclusion and exclusion of particular criteria to a limited extent.

The research presented in the following proposes a new purchasing process typology, which adds to existing research by suggesting a differentiated set of selection processes. Additionally, by using a qualitative method, it gives a more in-depth understanding of a relevant set of selection criteria.

*(B) The client-professional relationship*

Extensive research has contributed to our understanding of buyer-supplier relationships – especially within marketing (Palmatier, Dant, Grewal & Evans, 2006). Much of this research defines the relationship as repeated transactions. Seminal research has however pointed to buyer-seller relationships as consisting of both repeated firm transactions and the social interaction of people (Cook, 1977; Zeitz, 1980; Van de Ven & Walker, 1984a). In fact, seminal articles use client-professional relationships to understand the role of the individual attachments in the development of interorganizational relationships (Levinthal & Fichman, 1988b; Fichman & Levinthal, 1991; Seabright, Levinthal & Fichman, 1992). However, while some exceptions exist (e.g. Doney & Cannon, 1997; Halinen, 1997; Reynolds & Beatty 1999; Halinen Kaila & Salmi, 2001; Yim, Tse & Chan, 2008), empirical research that includes the individual dimension of business relationships is scarce (Rosenkopf, Metiu & George, 2001; Bendapudi & Leone, 2002; Broschak, 2004). There is also a lack of research on the role of individuals in the embeddedness of firms (Barbulescu, Galunic, Bensaou & Jonczyk, 2007).

The research presented in the following aims to develop new insight into the firm-individual duality of interorganizational relationships in general and client-professional relationships in particular. Specifically, it aims to add to

existing research by providing a conceptualization of the client-professional relationship as firm based as well as individually based.

*(C) The impact of the client-professional relationship on the client's selection*

In addressing the impact, this research aims to make two main contributions: (1) developing knowledge on the alternative ways in which the relationship impacts client selection and (2) developing knowledge on the underlying dimensions of the relationship that are perceived to impact client selection. Each of these will be treated in the following.

(1) Alternative ways of creating impact

As limited qualitative research has been done to understand client selection in professional services, research on how the client-professional relationship impacts selection is non-existent. Most research on the value of relationships takes the seller perspective and focuses on benefits of relationships for the seller (Palmatier et al., 2006). However, in recent years there has been an increasing interest among marketing scholars to develop an enhanced understanding of customer value of business relationships (Anderson, Jain & Chintagunta, 1993; Walter, Ritter & Gemünden, 2001; Menon, Homburg & Beutin, 2005). Even so, limited efforts have been made to study buyers and buyer selection in depth.

The same is true of service research. While research has been done throughout the 1990s and 2000s to understand the benefits of service relationships (Parasuraman, Berry & Zeithaml 1991; Berry 1995; Bitner, 1995; Reynolds & Beatty 1999), only limited research has taken the customer point of view (Martin-Consuegra, Molina & Esteban, 2006). While some exceptions exist, that in particular focus on customer value (Bendapudi & Berry, 1997; GwinnerNY, Gremler & Bitner, 1998; Martin-Consuegra et al., 2006), there is room for more research in this area (Sheth & Parvatiyar 1995; Martin-Consuegra et al., 2006). When considering professional services specifically, the development is similar to that of general service research. While there have been some studies that focus on client value, this research is scarce and more insight is needed in this area (Lapierre, 1997; Howden & Pressey, 2008).

In addition to understanding the general value of relationships, more research is needed to understand the role of the individual within these relationships. Scholars have proposed that interpersonal relationships function as a form of firm mobility barrier for customers (Dwyer, Schurr & Oh, 1987) that limits the switching of buyers (Wathne, Biong & Heide, 2001) and the dissolution of the relationship (Seabright et al., 1992). While later research within advertising shows contradicting results on the

continuation of the firm relationship upon the exit of key partners (Baker, Faulkner & Fisher, 1998; Broschak, 2004; Broschak & Davis-Blake, 2006), it suggests that the role of the individual in the client-professional relationship should be explored further. Also, an important function of individual relationships that has been largely overlooked in past research is the role of personal relationships in the selection of a particular firm. In fact, recent research suggests that the role of individuals has an essential function in this respect (Lian & Laing, 2007).

By using an in-depth methodology and considering the relationship as both firm and individually based, the research presented in the following aims to help develop new insight into client value of relationships in general, not only in professional services. It also intends to add to our understanding of customer value in services and buyer-supplier relationships in general.

(2) Subsidiary dimensions of the impact

As with general research on the customer value of buyer-supplier relationships, research into the dimensions of customer value of buyer-supplier relationships is still at an early stage and more work is required (Walter et al., 2001; Flint, Woodruff & Gardial, 2002; Menon et al., 2005). One dimension that has been pointed out as particularly relevant in buyer-seller relationships in general (Barringer & Harrison, 2000; Palmatier et al., 2006) and client-professional relationships in particular, (Maister et al., 2000; Glückler & Armbrüster, 2003) is trust. Trust has been proposed as a key governance mechanism in addition to market prices and internal hierarchical control (Eccles, 1981; Bradach & Eccles, 1989). In the case of PSFs, the notion of ‘the trusted advisor’ (Maister et al., 2000) has been portrayed as the ultimate way to success. This concept points to the relevance of building and maintaining trust to become a successful professional and to ensure client loyalty. It has gained extensive popularity among practitioners (Czerniawska, 2007).

Recent developments within professional service industries, however, suggest that trust is likely to become a less relevant characteristic of the client-professional relationship than in the past. A key development is that clients are becoming more knowledgeable and able to specify their own needs – which reduces the information asymmetry between clients and professionals (Armbrüster, 2006). The heightened specification implies that it is easier to compare suppliers and that the purchasing department is becoming increasingly involved (Armbrüster, 2006). In fact, research within professional services suggest that client-professional relationships are changing as a result of these changed conditions – so that clients have multiple rather than single relationships (Eccles & Crane, 1988; Armbrüster, 2006). While one relationship might be dominant, clients use alternative

suppliers to 'check' the 'lead' relationship and avoid 'hold-up' or switching costs associated with a single supplier relationship. Thus, they use a combination of price and trust as governance mechanisms with a desire to utilize the benefits of both (Bradach & Eccles, 1989). However, as this happens, the relationship trust and its relevance decreases (Eccles & Crane, 1988).

From a firm perspective, Barney and Hansen (1994) in particular are prominent among scholars who have tried to understand trust as a source of competitive advantage. By building on the resource based view of the firm (RBV), they propose that trust could be a source of advantage where firms are vulnerable to opportunism. Client professionalization combined with the changed nature of competition could suggest that clients are becoming less vulnerable, and this becomes less relevant for client selection and as a source of competitive advantage for PSFs than in the past. Thus, the predictions by Barney and Hansen seem to be applicable to professional services.

These developments suggest that PSFs need to move beyond their role as 'trusted advisors'. As the relevance of trust seems to decrease under the changed conditions, understanding other dimensions of relationship value is important. In the case of investment banking, Eccles and Crane (1988) find that clients emphasize the bank's ability to understand their needs as one such dimension. However, there seems to be a need for developing a more thorough understanding of the set of relevant relationship dimensions that impact customer value and selection under the changed conditions.

The research presented here considers the dimensions of the client-professional relationship that impact client perceived value. In particular, the research shows that the contextual knowledge that the PSF has of the client and client-professional chemistry are two dimensions pointed out more frequently than trust by buyers when evaluating the client-professional relationship value. The relevance of knowledge and chemistry cuts across the firm and the individual level of the relationship. These dimensions of relationship value and the relevance of considering the firm as well as the individual level across these dimensions have only been dealt with to a limited degree in past research.

In addition to the identification of contextual knowledge and chemistry as key dimensions of value among clients, the research shows that the representatives of the PSFs point to trust most frequently. Thus, the research suggests that the lack of customer focus of past research on buyer-supplier relationships in general and client-professional relationships in particular could suggest that trust has been overemphasized as a relationship benefit.

Professionals in fact point to contextual knowledge and chemistry as antecedents of trust. This is also proposed by Maister et al. (2000) in their description of what is needed to become a ‘trusted advisor’. The research presented in the following details these antecedents and points out that they, rather than the trust they precede, are particularly important for customer value.

Finally, to add to existing research on the value of buyer-supplier relationships in general and client-professional relationships in particular, the research takes a contingent perspective to develop understanding of the conditions under which the relationship in general and its underlying dimensions are of relevance for the customer’s perception of value.

### **1.4.3 Practical and normative implications**

The research presented in the following gives new insight for two main practitioner groups: PSFs and their clients. From a PSF perspective, the research provides information on how clients go about purchasing these types of services and the criteria they use in selecting a final supplier. This knowledge is beneficial for professionals in their marketing efforts – relative to both buyer classification and selection. It also provides insight into the preferences of buyers, which gives important indications concerning the types of resources and service characteristics that PSFs should strive to develop. In particular, the research suggests that PSFs should be careful about managing recruitment and staffing decisions to ensure client-professional chemistry and contextual knowledge development and transfer.

From a client perspective, the research indicates that many buyers in the private sector do not have a very conscious approach to selection. Thus, the process typology is relevant, not only for the selection among processes, but also as a reminder that there are alternative processes available. The process contingencies give indications on when particular types of processes are likely to be relevant and beneficial for buyers. For buyers, the criteria overview is also likely to give insight into relevant dimensions to consider in the selection of PSFs. In particular, the research emphasizes the co-productive nature of professional services and the importance of considering contextual knowledge and chemistry in the selection of suppliers.

### **1.5 Thesis overview**

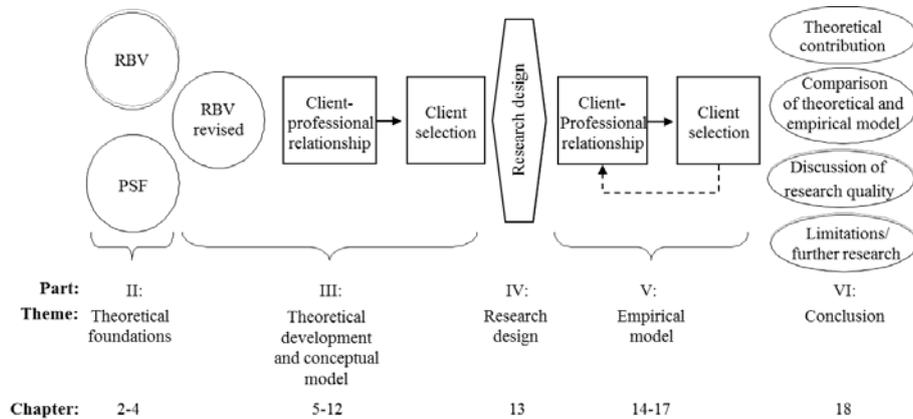
In the following, the theoretical foundations of the research – the RBV and research on PSFs - are presented. These theoretical perspectives and their “white spots”, where further research is needed, are included as Part II. Following the identification of these theoretical white spots, Part III proposes a revised notion of the RBV – referred to as ‘the open RBV’. This

perspective is used as a starting point for the presentation of a detailed conceptual model. The separate parts of the model are elaborated on in separate chapters, based on existing research. The outcome of this literature review is a theoretically based model that is used as a baseline for the in-depth empirical study.

Following the presentation of the theoretical model, the design of the empirical research is addressed. In particular, the research follows a question-and-answer approach that addresses the three main topics and the relevant subsidiary research questions listed above. By using the empirical data to address these questions, an empirically based model of the impact of the client-professional relationship on client selection is developed.

The final part of the research lists the theoretical contributions of the research, compares the theoretically and empirically based models, and addresses contributions, limitations and opportunities for future research. An overview of the different parts of the thesis is presented in Figure 1-2.

Figure 1-2: Overview of thesis structure



Part I: Introduction

## **PART II: THEORETICAL FOUNDATION**

### **Chapter 2: Theory selection**

#### **2.1 Theoretical starting point**

*“Whenever a theory appears to you as the only possible one, take this as a sign that you have neither understood the theory nor the problem which it was intended to solve.”*

(Popper, 1971: 266)

While it might be admirable to attempt to develop ‘grand’ theories that can explain a wide range of phenomena within its field, my view is that different theories are likely to have different explanatory power depending on the circumstances under which a phenomenon takes place. In fact, there might be a number of theories that could have been used as a starting point for the research presented here. Even so, I do think that research benefits from having a specific theoretical starting point and a prior understanding of how a particular study is adding to the existing body of knowledge. Also, an important contribution of any research effort is developing our understanding of the applicability of the theory to particular circumstances in order to understand its boundaries. Thus, in addition to the research question, my desire to study ‘competitive advantage’ as a dependent variable; my practical experience; and my academic background within the field of strategic management have all influenced the theoretical starting point of the research presented here.

This work is founded in two main theoretical streams of research: the resource based view of the firm (RBV) and research on professional service firms (PSFs). While the RBV is relatively generic, in terms of focusing on firm specific competitive advantage (CA), research on PSFs is more contextualized and focuses on particular types of firms. There is, however, some overlap between the two research traditions, as PSFs have been used to test the core claims of the RBV (Maijor & VanWitteloostuijn, 1996; Hitt et al., 2001; Hitt, Bierman, Uhlenbruck & Shimizu, 2003, 2006) and to develop the perspective (Løwendahl, 1992, 1997; Løwendahl et al., 2001; Fosstenløkken, Løwendahl & Revang, 2003; Løwendahl, 2005). Such fertilization of RBV across particular content fields is important in order to develop the RBV into an even more testable and usable theory (Gibe & Hallberg, 2005). At the same time, the RBV has been used to understand the sources of competitive advantage within PSFs (Løwendahl, 1992, 1997, 2005). Thus, past research suggests that utilizing both of these research traditions is likely to produce synergies rather than conflicts.

Various theories, including transaction cost theory, social capital theory, the industrial marketing and purchasing (IMP) tradition, and research within relationship marketing might represent interesting points of departure for understanding the research question posed. However, as the research presented here aims to develop an in-depth understanding of firm competitive advantage (CA) as net value maximization, the RBV is a more appropriate theoretical framework. For example, building on transaction cost economics seems inappropriate (Williamson, 1975, 1985; Conner, 1991; Williamson, 1991b; Hogan & Armstrong, 2001), as this perspective has been criticized for not appropriately accounting for the value dimensions of a competitive advantage (Ghoshal & Moran, 1996; Pitelis & Pseiridis, 1999).

An alternative approach would be to use the industrial network approach, which is primarily concerned with understanding industrial network evolution (Easton & Araujo, 1993; Sousa & Castro, 2004). This perspective has, however, been criticized for its inability to account for strategic implications of relationships (Baraldi, Brennan, Harrison, Tunisini & Zolkiewski, 2007). Moreover, an objective of the research presented here is to understand CA from client-consultant relationships. Thus, focusing primarily on social network theory (e.g. Burt, 1992; Uzzi, 1997; Gulati, 1998) is likely to be inappropriate as a primary theoretical foundation, as this theory only to a limited degree focuses in depth on the relationship and rather focuses on the network structure. While social capital theory (e.g. Bourdieu, 1986; Coleman, 1988, 1990; Nahapiet & Ghoshal, 1998) gives important insight into the benefits and nature of relationships, it is not primarily a theory of firm CA, and only addresses alternative explanations and contingencies of CA to a limited degree.

To allow for greater insight in understanding the particular research question under study, a range of research traditions is leveraged to understand key concepts and develop a conceptual model. Different research traditions are used to explore, understand, and define the concepts of client selection and the client-professional relationship. Research within business-to-business purchasing (e.g. Stock & Zinszer, 1987; Day & Barksdale, 1994; Mitchell, 1994; Bunn, Butaney & Hoffman, 2001; Axelsson & Wynstra, 2002) and relationship marketing (e.g. Berry, 1983; Crosby & Stephens, 1987; Anderson & Weitz, 1989; Morgan & Hunt, 1994; Berry 1995; Buttle, 1996; Hunt, 1997a; Palmatier et al., 2006) has been particularly important in developing an understanding of the core concepts of the research presented here. These traditions have been used to develop an initial theoretically based understanding of the influence of buyer-seller relationships on buyer selection.

## **Chapter 3: The resource based view of the firm (RBV)**

### **3.1 Introduction**

In the following, the basic claims of the RBV and its development over time are presented in brief (section 3.2). The main objective of this presentation is to point out key “white spots” in the perspective, i.e. areas where more research is needed, and to show how the research presented here adds to existing knowledge within the RBV. This is followed by a review of research focusing on the identified white spots (section 3.3). In particular, two key topics of the research question under study are addressed: (1) a demand side based notion of the RBV (section 3.3.1) and (2) partial firm resource control (section 3.3.2). Key contributions adding to our understanding of these topics can be found within strategy and marketing. A summary of the white spots and a presentation of how the research aims to fill existing gaps are presented in section 3.4. Figure 3-1 shows an overview of the chapter and the identified white spots.

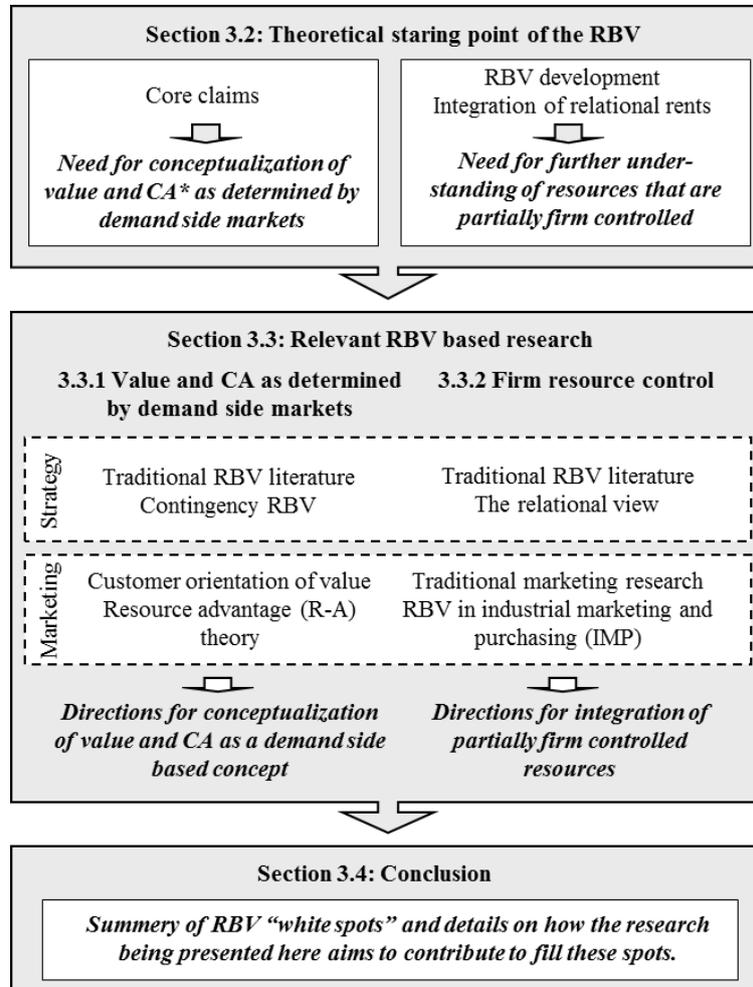
### **3.2 The theoretical starting point of the RBV**

#### **3.2.1 Core claims of the RBV**

The core claims of the RBV are that firms can be seen as bundles of heterogeneous resources (Penrose, 1959) and that these resources represent the firms’ main source of competitive advantage (Wernerfelt, 1984; Barney, 1986; Dierickx & Cool, 1989; Barney, 1991; Amit & Schoemaker, 1993). However, the presence of heterogeneous resources at one point in time does not explain why other firms cannot duplicate the advantage (Peteraf, 1993). For this to be the case, some form of isolating mechanisms (Rumelt, 1984) or resource position barriers (Wernerfelt, 1984) must exist. Examples of such mechanisms are: uncertainty about what causes the advantage, i.e. causal ambiguity (Lippman & Rumelt, 1982; Reed & Defillippi, 1990), legal protection, for example in the form of patents and trademarks (Rumelt, 1984), and time compression diseconomies, which make it difficult and costly for competitors to copy the resources (Dierickx & Cool, 1989).

While the concepts that are used to define a resource as strategic and sustainable differ among RBV scholars, a commonality is that they build on two main sources of advantage (Castanias & Helfat, 1991): (i) limitation in resource supply relative to demand, i.e. Ricardian rents (Ricardo, 1817, Reprint 1973) and (ii) firm specialization of resources, which implies that the value of a resource for a particular firm is higher relative to other firms, i.e. quasi-rents (Marshall, 1901; Klein, Crawford & Alchian, 1978; Monteverde & Teece, 1982; Dierickx & Cool, 1989).

Figure 3-1: Overview of RBV positioning and review



Note: \*CA = competitive advantage

While not all resources will be characterized by isolating mechanisms, it is essential within the RBV to find out what types of resources have such characteristics and the potential to underlie a firm's sustainable CA (Barney, 1991; Galbreath & Galvin, 2004). The RBV has contributed extensively to the explanation of the sustainability of resource based advantages (Wernerfelt, 1984; Barney, 1986; Dierickx & Cool, 1989; Barney, 1991; Barney, 2001; Acedo, Barroso & Galan, 2006; Lockett, Thompson & Morgenstern, 2009; Kraaijenbrink, Spender & Groen, 2010).

More recently, increased focus has been targeted towards the distribution of rents across different types of stakeholders, i.e. value appropriation (Coff, 1999; Kim & Mahoney, 2002; Lippman & Rumelt, 2003; Foss & Foss, 2005). However, much less research has focused on developing an understanding of the nature of and conditions under which a firm has a temporary competitive advantage (CA) (Peteraf & Barney, 2003).

Barney (1991; 1997) was one of the first scholars to recognize that resource advantages must be linked to the demand side market (Peteraf & Bergen, 2003). He points out that in addition to being rare and inimitable, resources need to be valuable in the sense that they enable the firm *'to conceive of and implement strategies that improve its efficiency and effectiveness'* (Barney, 1991: 106) or to *'respond to environmental threats and opportunities'* (Barney, 1997: 145) to enable the existence of a CA. In particular, he pointed to 'resource value' as an intermediary concept linking resources and the existence of a CA in the demand side market. This concept has, however, garnered extensive criticism and a number of researchers have pointed to the circularity of the resource value and CA definitions (Priem & Butler, 2001a, b; Lockett et al., 2009; Kraaijenbrink et al., 2010). Following this critique, scholars have labelled the perspective a tautology (Porter, 1994; Mosakowski & McKelvey, 1997; Foss, 1998; Priem & Butler, 2001b, a) and pointed out that resource differences define rather than predict why some firms perform better than others (Hoopes, Madsen & Walker, 2003). This is why most scholars focusing on resource based competitive advantages refer to the resource based view rather than the resource based theory. As a result of the critique, several scholars, including Barney himself, see a need for clarification of the concepts of resource value and CA (Barney, 2001; Priem & Butler, 2001a, b; Kraaijenbrink et al., 2010).

Priem and Butler (2001a, 2001b) point out that resource value and competitive advantage are largely determined by demand side characteristics. It is therefore problematic that end product and service markets are seen as exogenous to the traditional RBV. Moreover, Barney (2001) points out that it is essential for researchers using the RBV to consider the market conditions under which different types of resources are valuable. Such considerations demand a link between output markets and factor markets, which is absent in much of the traditional research within the RBV.

In addition to the ambiguity of the conceptualization of value and competitive advantage, Foss and Knudsen (2003) draw attention to the fact that key scholars within the tradition actually disagree about the dependent variable of the RBV altogether and that clarifications are needed. Over the

years, research within the RBV has focused on both value creation and capture as dependent variables (Bowman & Ambrosini, 2000).

As a response to their critique, Peteraf & Barney (2003) try to limit the diversity by attempting to provide a clear definition of CA as the dependent variable of the RBV. They define CA as the degree to which a firm *'is able to create more economic value than the marginal (breakeven) competitor in its product market'* (2003: 314). In turn, economic value is defined as *'the difference between the perceived benefits gained by the purchasers of the good and the economic cost to the enterprise'*. This proposed definition of CA leaves the door to the demand side marked ajar through its focus on *'benefits gained by the purchasers'*. Even so, Barney and Peteraf assume downstream markets to be exogenous and focus on resource advantages under *ceteris paribus* conditions. Thus, the RBV is assumed to be a perspective on resource efficiency rather than resource effectiveness across heterogeneous demand side markets. This efficiency orientation greatly limits the explanatory power and practical applicability of the RBV.

### **3.2.2 Theoretical developments beyond the core claims**

To further understand the RBV, it is important to review research done beyond the core claims. Co-citation analysis of a large number of contributions within the RBV shows that past research within this perspective has focused on three main areas (Acedo et al., 2006): the knowledge based view of the firm (KBV); the dynamic capability perspective (DCP); and the relational view and its extensions. Each of these perspectives will be presented in brief in the following.

As noted above, one objective of the RBV is to identify the types of resources that lead to competitive advantage. Extensive efforts have therefore been made to highlight the importance of certain types of resources. In particular, a number of authors have pointed out that intangible resources are those that are most likely to meet the tests of sustainability (e.g. Hall, 1992, 1993) Among intangible resources pointed out to enable sustainable competitive advantage are capabilities (Teece, Pisano & Shuen, 1990; Stalk, Evans & Shulman, 1992; Teece, Pisano & Shuen, 1997) competences (Prahalad & Hamel, 1990), know-how (Hall, 1992), reputation (Dierickx & Cool, 1989; Barney, 1991; Hall, 1992; Galbreath & Gavin, 2004), dealer loyalty (Dierickx & Cool, 1989), human assets (Coff, 1997), and relationships (Srivastava, Shervani & Fahey, 1998; Srivastava, Fahey & Christensen, 2001). In line with the focus on intangible resources, the notion of core competences (Prahalad & Hamel, 1990) and the knowledge based view of the organization (Kogut & Zander, 1992; Grant, 1996; Spender, 1996) were key themes throughout the 1990s. The core competence

perspective emphasizes the need for organizations to focus on those capabilities that make up the foundation of their competitive advantage and that can be applied across products and markets (Prahalad & Hamel, 1990). The knowledge based view focuses primarily on showing that knowledge meets the criteria needed for it to support a sustainable competitive advantage and that it represents the most important resource of the firm (Grant, 1996).

With the development of the dynamic capability perspective (Dierickx & Cool, 1989; Amit & Schoemaker, 1993; Hamel & Prahalad, 1994; Henderson & Cockburn, 1994; Mahoney, 1995; Teece et al., 1997; Eisenhardt & Martin, 2000), the interest in knowledge, competences and capabilities was combined with a dynamic understanding of competitive advantage. This dynamic perspective contrasted with the static and equilibrium based RBV research that represented the foundations of the core claims of the perspective (Barney, 1991; Conner, 1991; Peteraf, 1993). The dynamic nature of resource competition was acknowledged in the late 1980s (Dierickx & Cool, 1989) and early 1990s (Amit & Schoemaker, 1993) based on the fact that some resources need to be accumulated and cannot be traded in the open market. However, while the traditional RBV focused on a Ricardian logic (Ricardo, 1817, Reprint 1973) and took an intermediate perspective (Mahoney, 2001) where superior performance originates from ownership of particularly productive resources, the dynamic capabilities perspective is concerned with a longer term point of view and the firm's *'ability to integrate, build and reconfigure internal and external competences in rapidly changing markets'* (Teece et al., 1997). This perspective builds on a Schumpeterian logic which emphasize markets as characterized by creative destruction which are processes or innovations that revolutionize the economic structure of markets and change the way companies compete (Schumpeter, 1942). In particular, the perspective tries to integrate this logic and firms' ability to overcome such major market changes. Recent contributions to the dynamic capability tradition point to 'evolutionary fit' as a key concept which is determined both by a firm's dynamic capabilities as well as the external environment in the form of demand and competition (Helfat, Finkelstein & Mitchell, 2007).

However, while considering the link between resources and markets, the DCP focuses primarily on a firm's ability to meet changes as opposed to trying to understand the conditions under which different types of resources are likely to lead to a competitive advantage. The research presented here focuses on resource picking – as seen from the client perspective – rather than on resource development. Therefore, a closer study of the dynamic capability perspective is considered beyond the scope of this thesis.

The last of the three themes identified through the use of a co-citation method concerns the development of the relational view and the application of the RBV to interorganizational relations (Acedo et al., 2006). The relational view was developed based on an assumed inability of the RBV to account for interorganizational rent (Dyer, 1996; Dyer & Singh, 1998). Within the RBV, resources are commonly defined '*as all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness*' (Daft, 1983; Barney, 1991). If this definition is taken literally, it suggests that the RBV cannot account for relational rent that clearly is not firm controlled. Thus, rather than focusing on the firm as the unit of analysis, as is done within the RBV, the relational view focuses on the dyad or interorganizational relation as the unit of analysis.

However, while Dyer and Singh (1998) point out that it is impossible to integrate relational rent into the RBV, other scholars note that it is possible to build on the RBV to integrate the benefits of external relationships (Eisenhardt & Schoonhoven, 1996; Haanæs, 1997; Molina, 1999; Lavie, 2002, 2006). At the same time, a number of seminal scholars within the RBV (e.g. Dierickx & Cool, 1989; Barney, 1991; Løwendahl, 1992; Amit & Schoemaker, 1993; Løwendahl, 1997) have pointed to resources that are partially or fully externally controlled by the firms as being some of the most important resources leading to a competitive advantage. However, the question of whether such resources can in fact be seen as resources within the RBV, and whether the notion of resource control is a necessary condition within the RBV, has only been considered to a limited degree. Thus, developing a better understanding of the necessity for firm resource control as an assumption of the RBV, and the place for partially or fully externally controlled resources within this perspective, is highly relevant for the research question addressed in the following. Moreover, such a discussion is likely to add extensively to the theoretical and conceptual foundation of the RBV.

### **3.2.3 Summary and point of departure**

Based on the presentation of the core claims within the RBV and the development of the RBV research tradition beyond these core claims, two main white spots have been identified:

- (1) Lack of focus on the link between resources and demand side markets to understand competitive advantage.
- (2) Lack of discussion on the relevance of firm resource control as an assumption of the RBV.

These white spots represent important areas where a re-evaluation of the RBV is needed. Below, the importance and relevance of these white spots are presented in brief.

(1) The link between resources and demand side markets to understand CA. Much of the existing RBV research has focused on understanding the sustainability and appropriability of resource based advantages. However, understanding sustainability and appropriability seems premature before more research is done to fully understand how value is created and a CA is established in the first place (Peteraf & Barney, 2003; Priem, 2007). This need for developing a better understanding of temporary advantages is likely to become increasingly relevant as rapid changes in most industries are making it difficult for firms to find a sustainable CA (Eisenhardt & Martin, 2000; Fiol, 2001). Rather, firms are likely to need to generate a series of temporary advantages. As a result, the relevance and importance of temporary CAs will increase. Thus, developing more in-depth understanding of both the concept of a CA and the demand-side conditions for a CA is needed.

At the same time, as value is increasingly co-produced through the direct application of resources in the creation of customized solutions (Ramirez, 1999), there is no longer a clear line between resource and demand markets. Understanding customer preferences becomes essential in this type of value creation – also within the RBV. An example of the interrelated nature of input and output markets is the notion of customers as resources to the firm and as partial employees in the value creation of services (Barnard, 1938; Lovelock & Young, 1979; Bowen, 1986; Mills & Morris, 1986). Thus, there is a need to more closely incorporate demand side markets into the RBV. This incorporation is particularly important from a practitioner's point of view. In their quest for a CA, they need to consider both input and output markets.

(2) Firm resource control.

As pointed out above, extensive research within the RBV suggests that intangible resources – for example in the form of knowledge (Kogut & Zander, 1992; Grant, 1996; Spender, 1996), reputation (Dierickx & Cool, 1989; Barney, 1991; Grant, 1991; Hall, 1991, 1992; Amit & Schoemaker, 1993; Hall, 1993; Black & Boal, 1994; Haanaes, 1997; Oliver, 1997), and relationships (Barney, 1991; Hall, 1991, 1992, 1993; Teece et al., 1997) are essential for the competitive advantage of firms. This is surprising, as the most commonly used definitions of resources within the RBV, such as that of Barney (1991) or Amit and Schoemaker (1993), define a resource as something that is owned or controlled by the firm. However, very little

research has looked in depth at the theoretical applicability of the RBV to resources that are only partially firm controlled.

The assumption of firm resource control is central to the core claims of the RBV. In a recent Harvard Business Review article, Collis & Montgomery (2008) identify firm control as the third most important feature to look for in determining a firm's strategically valuable resources. These authors in turn link the question of control to the 'test of appropriability', which concerns the firm's ability to appropriate rent from different types of resources. In particular, the question of control is essential relative to intangible resources, as many of these resources – which in a majority of RBV research are identified as some of the most strategic resources – are in fact not owned or controlled by the firm.

From a practical point of view, the assumption of firm resource control that underlies the RBV limits the applicability of the perspective to the actual reality of firms – in which many resources are controlled in part individually and in part externally (Løwendahl, 1992, 1997). Stakeholders that control intangible resources want autonomy and self-governance and are likely to react negatively to attempts by management to control them. In fact, extensive research suggests that mobilization as opposed to firm control and allocation is essential for the development of a competitive advantage from intangible resources (Itami, 1987; Haanæs, 1997).

The applicability of the RBV to the reality of firms is, however, not only important for the practical use of the perspective. While a number of scholars have labelled the RBV a tautology (Porter, 1994; Mosakowski & McKelvey, 1997; Foss, 1998; Priem & Butler, 2001b, 2001a) and pointed out that the perspective cannot be falsified, other scholars (i.e. Powell, Lovallo, & Caringal, 2006) have responded to this critique by suggesting that the RBV should not be judged based on falsification based criteria. Rather, it should be evaluated based on its instrumental value in terms of its ability to solve firm performance puzzles better than competing theories. This ability is severely limited due to the lack of attention to the CA of firms as determined by demand side markets and real life limitations in firm resource control. Thus, by developing the perspective to incorporate demand side markets and partial resource control – which more accurately reflects the reality of firms – the theory is made more applicable to real life situations. As a result, the RBV's instrumental value will increase and its position as a theoretical perspective within strategy is likely to be strengthened.

### **3.3 RBV research within the identified white spots**

Based on the identified white spots, a further in-depth review of literature dealing with the particular areas is included in the following. This comprises research that deals with: (1) resource value and CA as determined in demand side markets and (2) research that discusses the applicability of the RBV to resources that are only partially firm controlled. Research that focuses on relationships as resources will be highlighted in particular.

#### **3.3.1 RBV research on value and competitive advantage (CA) as determined in demand side markets**

Based on a review of existing research on value and CA as determined in demand side markets, a distinction can be made between contributions within strategy and marketing. These two traditions have incorporated demand side markets relatively separately and with different focus. Linking these different traditions is in itself a contribution and likely to be beneficial for the development of the RBV.

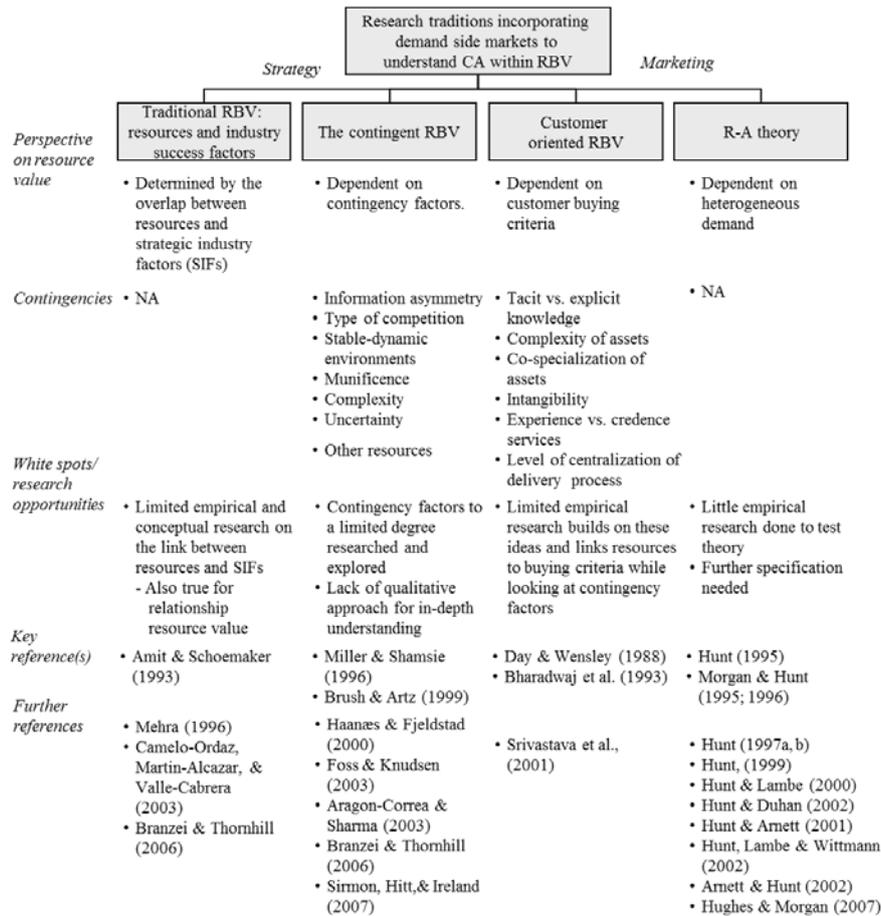
Within strategy, seminal research has focused on the fit between resources and external key success factors. More specifically, a research tradition referred to as ‘the contingent RBV’ deals with the contingent nature of resource value and competitive advantage as determined in the demand side market. Within marketing, a number of scholars have focused on value based on customer evaluations. Additionally, building on the RBV, the resource advantage (R-A) theory adds important understanding of the demand side markets and the RBV by incorporating heterogeneous resources with heterogeneous demand.

The review of RBV based literature dealing with CA, as determined within demand side markets, has shown that there are important gaps that need to be explored further. A summary of the key insights, white spots and references can be found in Figure 3-2.

The main insights gained in the review, relative to the incorporation of the demand side market to understand resource based CA, are as follows:

- (1) Relatively limited work has been done to define resource value as determined in demand side markets.
- (2) Resource value and competitive advantage can be seen as determined by the overlap between firm specific resources and Strategic Industry Factors (SIFs), which are those factors that determine the existence of market failure in a particular industry (Amit & Schoemaker, 1993).
- (3) SIFs overlap with customer buying criteria.
- (4) Resource value and CA is likely to be contingent on environmental and service characteristics as well as the interaction with other resources.

Figure 3-2: Overview of literature incorporating CA and resource value with demand side markets



Related to these insights, key gaps can be identified where further research is needed:

- (1) Efforts to link customer buying criteria to the RBV to understand resource based competitive advantage.
- (2) Theory and empirical research on CA and resource value as determined by the overlap between customer criteria and firm resources.
- (3) Understanding of contingency factors impacting the relevance of customer buying criteria and resource value.

- (4) Use of qualitative research methods to develop an enriched understanding of buying criteria and contingency factors as indicators of resource value; and as a starting point for the development of a new research agenda within strategy that better incorporates resource and demand side based sources of competitive advantage.

Some researchers (e.g. Makadok & Coff, 2002) point out that the demand side market is beyond the scope of the RBV. Even so, the insights presented above suggest that to the extent that the RBV is a perspective designed to help understand sources of competitive advantage and firm performance (Barney, 1991; Makadok & Coff, 2002) – and not merely to understand resource sustainability and appropriability – the demand side market cannot be neglected. Makadok and Coff emphasize that the incorporation of demand side markets within the RBV easily implies reinvention of the wheel. However, rather than trying to establish what is already known by others, this thesis aims to build on existing theory and research within marketing and purchasing in an effort to develop a bridge across traditional RBV research and research into the demand side market. This combination adds a new and relevant dimension to the perspective that is not a ‘reinvention of the wheel’.

### **3.3.2 Firm resource control within the RBV**

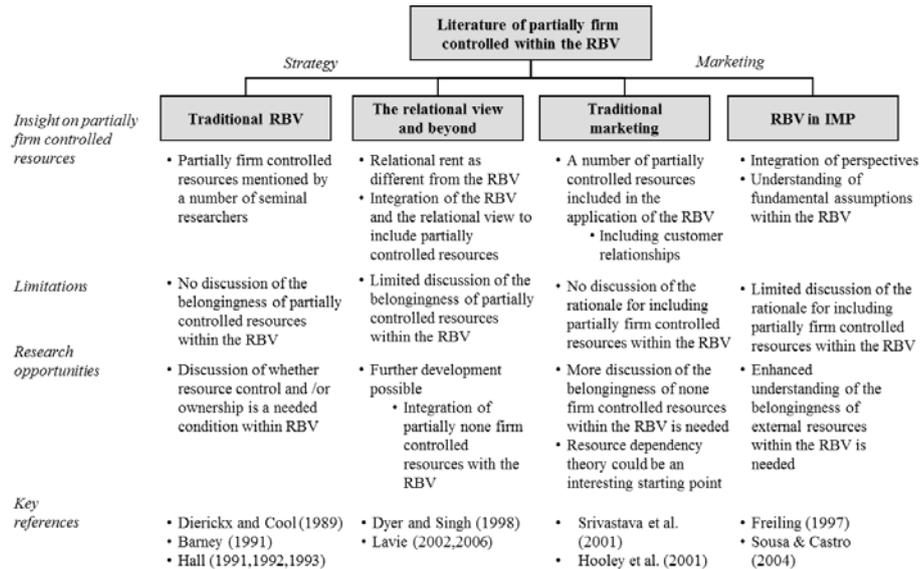
As in the case of research on CA, insight into the assumption of firm resource control within the RBV can be found in two main research disciplines: strategy and marketing. Two streams of research can be identified within each of these disciplines. Within strategy, the traditional RBV and the relational view are informative in understanding the relevance of the assumption. Within marketing, traditional marketing research and the integration of the RBV with the Industrial Marketing and Purchasing (IMP) research tradition are relevant.

The review of literature dealing with partially non-firm controlled resources within the RBV shows that there are important white spots that need to be explored further. A summary of the key insights and white spots is provided in Figure 3-3 on the next page.

The literature review showed that a number of seminal RBV scholars and research within marketing building the RBV, include partially or fully externally controlled resources within the perspective. Even so, some of the most cited definitions of resources within the RBV include firm control as a precondition for defining something as a resource. Examples are Barney (1991), who defines resources as *‘all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its*

efficiency and effectiveness’, and Amit and Shoemaker (1993) who define resources as ‘stocks of available factors that are owned or controlled by the firm’.

Figure 3-3: Overview of research on partially firm controlled resources within the RBV



Common across the RBV research is a lack of attention to and focus on the assumption of firm resource control that underlies the traditional RBV. In fact, the research presented above does not look in depth at the concept of control and what it means to have control. Rather, the concept of control must be interpreted based on the understanding of the concept of a firm. The ‘traditional’ RBV takes a ‘simplistic’ view of firms, where firms are assumed to be atomistic and their borders absolute (Hakansson & Snehota, 1989). If such a perspective is taken, resources must be assumed to exist either inside or outside the firm. As a result, the only resources that can be included within the RBV are internal and fully controlled by the firm.

Following such an inside-outside dichotomy, a similar one applies to the concept of ‘resource control’ in the sense that resources exist inside the firm and are firm controlled, or they exist outside the firm and are not firm controlled. Thus, the concept of firm control within the traditional RBV is dichotomous and represented by a ‘yes’ or ‘no’ typology. This concept of control does not consider the fact that firms often have only partial control of resources. Thus, while some resource definitions within the traditional RBV

exclude the concepts of control and ownership (e.g. Wernerfelt, 1984), choosing such alternative definitions does not overcome the atomistic and unitary perception of firms that underlies the traditional RBV, which in turn impacts the predictions we can make from the perspective.

At the same time, a number of the seminal researchers within the RBV include resources that are external and only partially controlled by the firm as key sources of competitive advantage. Examples are: firm reputation (Dierickx & Cool, 1989; Barney, 1991; Grant, 1991; Hall, 1991, 1992; Amit & Schoemaker, 1993; Hall, 1993; Black & Boal, 1994; Oliver, 1997), customer relationships (Barney, 1991; Hall, 1991, 1992, 1993; Teece et al., 1997), trust (Dierickx & Cool, 1989), and trustworthiness (Barney & Hansen, 1994). However, none of these scholars address whether in fact such resources have a place within this perspective. Nor do they consider the theoretical applicability of RBV to resources that are partially controlled beyond traditional firm borders, or by individual stakeholders of the firm, rather than the firm itself.

An interesting exception is Miller and Shamsie (1996), who make a distinction between property and knowledge based resources and point out that the inimitability of each of these types of resource is very different. While resource control and ownership form the fundamental basis for immobility of property based resources, knowledge barriers relate to the fact that knowledge based resources, as sources of advantage, are subtle and difficult to understand.

The main insight gained from the literature review in terms of developing insight and conceptualizations of partially controlled resources within the RBV is as follows:

- A number of authors assume that various partially controlled resources can be incorporated as resources within the RBV, but do not consider whether resource control is required in order for the predictions of the RBV to hold.

Related to this insight, key opportunities for further research are:

- To develop an in-depth understanding of resource control as an underlying assumption of the RBV.
- To develop a more in-depth understanding of whether the RBV can be applied not only to internal firm controlled resources, but also to resources that are only partially firm controlled.

### 3.4 Conclusion and beyond

The presentation of the core claims of the RBV and how this perspective has developed reveals two key research areas that require further development. The areas identified concern: that resource based competitive advantage is seen as dependent on demand side markets – and that the demand side should be more integrated into the RBV, and the question of whether and how resources that are only partially controlled by the firm can be included as resources within the RBV. As pointed out above, dealing with these areas seems particularly important to overcome some of the critique against the RBV and to develop it into a more realistic and useable perspective for practitioners.

Through a detailed review of research traditions in strategy and marketing that have dealt with the two identified areas, a number of more specific topics were noted into which further research is needed. These are presented in Table 3-1. The review showed that both conceptual and empirical work is needed.

Table 3-1: Key insights from the RBV literature review

	<i>Work needed</i>	
	<i>Conceptual</i>	<i>Empirical</i>
<i>Demand side markets within the RBV</i>	Conceptualization of resource value and CA as determined by demand side characteristics	Development of a more in-depth understanding of resource value as determined by demand side markets - dimensions, contingencies
<i>Partially controlled resources within the RBV</i>	Discussion of the need for firm resource control within the RBV Revised conceptualization of the RBV	More in depth understanding of the relevance of the demand side for resource based CA
<i>Both</i>	CA as determined by supply and demand side markets Development of a RBV based theoretical starting point that acknowledges CA as determined by demand side markets and partially controlled resources	Development of an empirically founded starting point that gives insight into the relevance of the demand side for the evaluation of resource based sources of CA

The research presented thus far has not developed a deeper understanding of the concept of resource based value and competitive advantage in demand side markets, beyond mentioning that it concerns the buying criteria of customers. In Part III of the following, the concepts of value and competitive advantage as external to the firm will be investigated more thoroughly, in an attempt to extend the RBV.

Based on the application of the RBV to partially firm controlled resources, the research shows that there is room for more understanding of such types of resources within the perspective. In particular, the question of whether

complete resource control is a precondition of the RBV was identified as a key area where more conceptualization is needed. By including resources that are partially externally controlled, such as relationships, firms must be assumed to be dependent and embedded in their environment rather than atomistic and faceless. The implications of changing this assumption need to be explored.

Overall, the literature review shows that there is a need for a more 'open' version of the RBV to enable incorporation of demand side markets and partially controlled resources. Through opening the organization both the resource and the value side of the RBV are likely to become more closely linked to the environment and more applicable to empirical research. In attempting such an extension, the assumptions of the RBV must be revisited as done in Chapter 5 in Part III of the following.

In addition to the conceptual work, empirical work is also necessary. First, a more thorough understanding of resource value as external to the firm is required. By building on the ideas proposed by Amit and Schoemaker (1993) and by empirically grounding the key dimensions of value based on customer selection criteria in a particular setting, new insight is likely to be gained on the notion of a resource based competitive advantage. Regarding partially firm controlled resources, it is important to develop a better and more empirically based understanding of the demand side value of these types of resources and their key dimensions. However, the most important contribution from this empirical study is the exploration of the effect of resources on customer value, and the exploration of contingencies that influence differences in value. While existing research on contingencies is primarily quantitative, more understanding and insight based on qualitative research is likely to be useful in this area.

## **Chapter 4: Professional service firms (PSFs) as theoretical foundation and empirical setting**

### **4.1. Introduction**

In addition to making a contribution to the RBV, which deals with general firm strategy and competitive advantage, the empirical research presented in the following also builds on and intends to make contributions to research into a particular type of firm – professional service firms (PSFs).

PSFs have been used as an empirical setting for developing and testing theories within management and strategy to a relatively extensive degree (Maijoor & VanWitteloostuijn, 1996; Pennings, Lee, & van Witteloostuijn, 1998; e.g. Boxall & Steeneveld, 1999; Hitt et al., 2001; Kor & Leblebici, 2005). In fact, a number of these studies have used the RBV as a theoretical foundation. However, while PSFs represent an interesting empirical setting per se, the arguments presented above concerning the importance and peculiarities of these types of firms suggest that PSFs could be seen as a separate field of research that demands its own theoretical foundation (Løwendahl, 1992; Maister, 1993; Løwendahl, 1997; Hinings & Leblebici, 2003; Greenwood et al., 2005; Malhotra, Morris & Hinings, 2006; Von Nordenflycht, 2010).

While it might be argued that the phenomenon of PSFs is too narrow to represent a separate research field, developing a theoretical foundation for these types of firms seems essential due to their peculiarities and function as role models in the knowledge based economy. Thus, focusing on PSFs as a separate research area appears necessary to ensure the level of attention required. While arguing for PSFs to constitute a separate research field with its own theoretical foundation is not a primary objective of the research presented here, it seems puzzling to me why such a perspective should be rejected if insight can be gained and knowledge developed from it. Thus, I emphasize the importance of focusing on PSFs as a distinct field of research to ensure progress in our understanding of these types of firms. While I recognize that much of the understanding we have of the PSF is rooted in diverse research traditions and that one must be wary of the potential incommensurability problems related to utilizing such diverse research, using multiple perspectives seems essential in order to truly understand these types of firms (Armbrüster, 2006).

Thus, the research presented in the following aims to contribute to the notion of professional service firms both as theory and as an empirical setting. As a starting point, a definition of PSFs is presented and different types of PSFs are described. This presentation not only clarifies the scope of the research

through defining what a PSF is, it also gives extensive insight into the nature of PSFs as an empirical setting, which is very important in order to understand how these firms are selected by clients. In turn, and following the research question under study here, a literature review which focuses on work on the strategy and management of PSFs and presents sources of advantage available in these types of firms is included. In particular, research focusing on the client-professional relationship as a source of advantage will be presented. As a final section, an overview of identified ‘white spots’ is shown and opportunities for contributions to existing research are set out.

#### **4.2 Definition and conceptualization of PSFs**

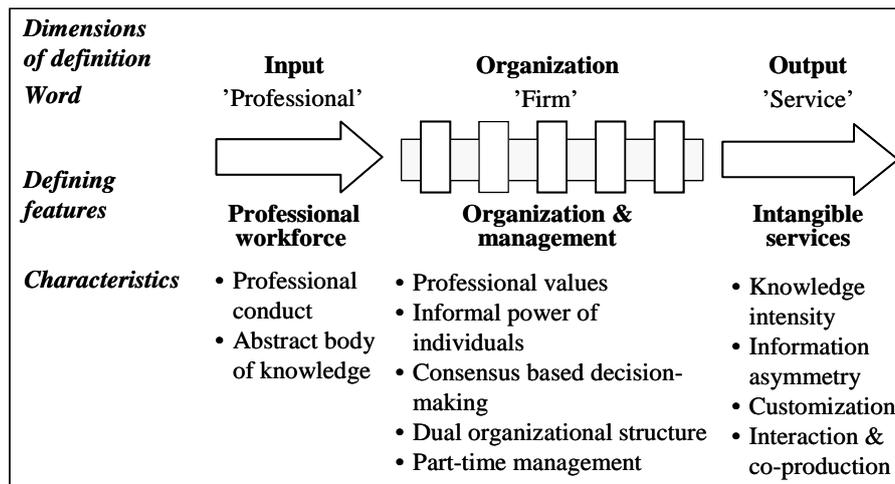
A number of authors (e.g. Løwendahl, 1992; Maister, 1993; Greenwood et al., 2005) have pointed out that PSFs constitute a distinct and particular group of firms, and that applying traditional theories of organization to these types of firms can be very dangerous. Thus, understanding what constitutes a PSF is essential. Even so, no commonly accepted definition of a PSF exists among researchers. Recently, authors have pointed specifically to the need to develop a more consistent definition of what a PSFs is and what makes it distinctive (Von Nordenflycht, 2010). In many PSF conceptualizations, no concrete definition is offered. Rather, PSFs are defined based on a portfolio of characteristics (Løwendahl, 1992, 1997, 2005; Von Nordenflycht, 2010). In the following, a relatively broad definition of PSFs that has gained some recognition in the PSF-researcher community (Heugens, Den Nieuwenboer & Kaptein, 2007; Løwendahl, 2007) will be used as starting point. In turn, this definition will be integrated with other identified key characteristics of PSFs.

PSFs can be defined as firms **‘whose primary assets are a highly educated (professional) workforce and whose outputs are intangible services** (e.g. Greenwood et al., 2005). Thus, to understand whether or not a service can be perceived as professional depends on (1) **the workforce** of the firm in terms of its knowledge and professionalism and (2) **the services** that the firm delivers in terms of their intangibility. While the workforce can be seen as the input to the professional service firm, the services can be seen as the output. A number of authors (Løwendahl, 1992, 1997; DeLong & Nanda, 2003; Broschak, 2004; Fosstenløkken, 2007) have focused on inputs and outputs in defining and understanding PSFs.

However, in reality these two dimensions only deal with the notion of ‘professional services’, neglecting the essential role of the ‘firm’ as an organization and a strategic entity. A number of authors have pointed to the peculiarities of the organization and management of PSFs (Maister, 1982, 1985; Greenwood, Hinings, & Brown, 1990a; Løwendahl, 1992; Maister,

1993; Winch & Schneider, 1993; Alvesson, 1995; Løwendahl, 1997). Thus, in addition to the input and output dimensions, ‘the firm’ is added as a third dimension used to define the PSF. An overview of the defining features of PSFs is set out in Figure 4-1.

Figure 4-1: Defining features of professional service firms



This definition is not intended to be used in a strict, dichotomous fashion, which would result in the exclusion of firms that do not bear all the mentioned characteristics. Such an approach would limit the face validity of the definition, as it excludes for example, management consulting firms, due to limitations in the level of professionalism of the workforce (Løwendahl, 1992; Von Nordenflycht, 2010). Rather, the presented characteristics represent ideal dimensions of PSFs and acknowledge that the different dimensions may vary considerably across firms (Løwendahl et al., 2001). For example, while some firms might be characterized by extreme customization, others might base their business on more standardized solutions and focus to a lesser degree on unique products for each client (Maister, 1993; Løwendahl, 1997). However, even if there are considerable differences across firms, the dimensions represent a framework for assessing professional service firm intensity (Von Nordenflycht, 2010). At the same time, as a baseline model, a firm must be characterized by a minimum level of all of the categories listed in Figure 4-1 in order to be referred to as a PSF. The peculiarities of the input, output and firm are described briefly below.

#### 4.2.1 Professional workforce

Greenwood et al. (2005) refer to the notion of a knowledgeable professional workforce. However, adding knowledgeable to the concept of a professional seems unnecessary, as an abstract body of knowledge is often incorporated into the notion of being professional. Even so, the concept of ‘a professional workforce’ as a key defining feature of PSFs (Greenwood et al., 2005) has been interpreted in two ways in past research: (1) as members of a profession and (2) as service delivery according to professional standards (Løwendahl, 1992).

If interpretation (1) is used, employees of the PSF should be part of a profession. Three main characteristics are often used to define a vocation as a profession in traditional sociology (Blau & Scott, 1962; Mills & Vollmer, 1966; Løwendahl, 1992, 2005; Von Nordenflycht, 2010): (a) a knowledge base that the individual professional has to learn through an accredited higher academic education, (b) that the knowledge and experience of the vocation is controlled by the profession and applied to problems of societal importance in a way which is not self-seeking, and (c) that the vocation has a common code of ethics, self-control through peer reviews, and systems that ensure that members who break the code of ethics are excluded from practising the vocation. This is a very strict definition of what a profession is. More recent and extensively cited authors (e.g. Abbott, 1988; Sharma, 1997) argue that what distinguishes a profession from a non-profession is its foundation in an abstract body of knowledge, and that the other requirements of professions can be easily obtained and are not as important. The research presented in the following takes this more ‘modern’ perspective.

An alternative approach to conceptualizing ‘a professional workforce’ is to focus on services and employee conduct (Løwendahl, 1997, 2005). Professionalism in this sense demands that the workforce follows professional norms of conduct, sets client needs higher than profits and respects the limits of its professional expertise. However, professional conduct is also defined by individual autonomy and personal judgment (Freidson & Rhea, 1965; Engel, 1970; Raelin, 1985b, 1985a).

By taking a ‘modern’ perspective on professions and focusing on the conduct of professionals rather than institutional regulations, a professional workforce can be defined based on the conduct of the workforce in addition to its foundation in abstract knowledge. This definition includes as PSFs not only firms that employ members of traditional professions such as lawyers, doctors and accountants, but also those firms that share key characteristics with such firms and that often are included and conceived of as PSFs, such as management consultancies, investment banks, advertising agencies, and

communication consultancies (Løwendahl, 1992; Maister, 1993; Løwendahl, 1997, 2005).

#### 4.2.2 Intangible services

A key defining feature of professional services is their intangibility (Løwendahl, 1992, 1997; Fosstenløykken et al., 2003; Greenwood et al., 2005). Some scholars define this intangibility in the sense that there is no physical form that can be perceived by the buyer (Oberoi & Hales, 1990; Clark, 1995a). Professional services are often subjective (Dornstein, 1977; Gummesson, 1979; Mitchell, 1994) and unique, and there are often very few objective measurement criteria. As pointed out above, many professional services are characterized as credence goods (Darby & Karni, 1973; Brush & Artz, 1999). Professional services are also complex and have delayed effects (Hite & Fraser, 1988). The intangibility of professional services can be linked to four main characteristics<sup>1</sup>: (A) knowledge intensity, (B) information asymmetry, (C) innovation and customization, and (D) co-production and client interaction.

##### (A) Knowledge intensity

Professional services involve an extensive degree of knowledge development and transfer (Morris & Empson, 1998; Hansen, Nohria & Tierney, 1999; Sarvary, 1999; Løwendahl et al., 2001; Ofek & Sarvary, 2001; Skjølvsvik, Løwendahl, Kvalshaugen & Fosstenløykken, 2007). However, when it comes to defining knowledge intensity, it is difficult to separate what is and what is not knowledge intensive, and such separations will always be heavily contested (Alvesson, 2001; Zack, 2003). The distinction between more or less knowledge intensive organizations is often made relative to those organizations that are capital or labour intensive (Løwendahl, 1992; Von Nordenflycht, 2010). For the purpose of separating knowledge intensive and non-knowledge intensive services in the following, knowledge intensity is assumed to concern the application of uncommon expert esoteric knowledge (Løwendahl, 1992; Starbuck, 1992; Greenwood et al., 2005) as opposed to the use of general knowledge.

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<sup>1</sup>These characteristics should not be confused with the IHIP-characteristics (*intangibility, heterogeneity, inseparability, perishability*) often used in service marketing to separate services from products (see e.g. Lovelock, 1981; Oberoi & Hales, 1990; O'Farrell & Hitchens, 1990; Fisk, Brown & Bitner, 1993; Vargo & Lusch, 2004). While there are a number of similarities, in particular in terms of heterogeneity, customization, inseparability and co-production, the categorizations are made for different purposes.

(B) Information asymmetry

The intangibility and knowledge intensity of professional services results in differences in the levels of knowledge and information across PSFs and their clients. This difference is often referred to as information asymmetry (Nayyar, 1990; Nayyar & Templeton, 1991; Nayyar, 1993). This asymmetry implies that while the PSF is likely to have an understanding of the actual quality of what will be delivered and the contingencies of that quality, the buyer might not (Clark, 1993, 1995a).

One particular effect of information asymmetry is that it prohibits the signalling effect of price to work efficiently so that higher prices reflect higher quality (Akerløf, 1970; Holmstrom, 1985; Nayyar, 1990, 1993; Skaggs & Snow, 2004; Armbrüster, 2006). At the same time, it is difficult to observe and reverse services. As the outcome is often highly uncertain, it is difficult to determine whether a service is good or bad and whether the seller has good intentions. This is often referred to as the moral hazard problem (Nayyar, 1990), a problem which could function as an incentive for PSFs not to maximize their efforts. Additionally, as it is difficult to observe the quality of the PSFs and the solution they offer, the buyer could easily choose an inferior supplier and solution to a given problem – often referred to as the problem of adverse selection (Holmstrom, 1985; Nayyar, 1990, 1993). The presence of moral hazard and adverse selection problems makes it very difficult for clients to select PSFs. As a result, clients perceive extensive risk related to purchasing these types of services (Clark, 1993; Mitchell, 1994; Clark, 1995a).

(C) Customization

Customization refers to the degree to which solutions supplied to clients need special tailoring. As value in professional services is created by mobilizing expertise to solve particular client problems (Morris & Empson, 1998; Stabell & Fjeldstad, 1998), these types of services are characterized by an extensive degree of customization and innovation (Løwendahl, 1992; Maister, 1993; 1997). Customization can be divided into two different dimensions: (1) the service and (2) the level of professional judgement needed on the part of the supplier (Lovelock, 1983). Thus, standardized professional services can involve a considerable degree of customization where expert professional judgment is needed in the selection across different solutions.

(D) Client interaction and co-production

The high level of customization typically present in professional services demands an in-depth understanding of particular client problems. This demands iteration and often extensive PSF-client interaction. In fact, even in cases which are dominated by replication, tailoring the replicated solution to

the client demands significant interaction (Morris et al., 1998; Greenwood et al., 2005). Thus, professional services are created through co-production between the PSF and its clients (Ramírez, 1999; Lachman, 2000), and are often highly dependent on the contribution of the client for success (Chase, 1978; Bowen, 1986; Mills & Morris, 1986; Brown & Swartz, 1989; Maister, 1993; Brush & Artz, 1999; Bateson, 2002; Bettencourt et al., 2002).

#### **4.2.3 The firm**

A number of authors have pointed to the peculiarities of PSFs in terms of their organization and management (Maister, 1985, 1989; Greenwood, Hinings & Brown, 1990; Løwendahl, 1992; Maister, 1993; Løwendahl, 1997). These peculiarities include the fact that PSFs are extremely dependent on individual professionals (Maister, 1982; Løwendahl, 1992; Maister, 1993; Løwendahl, 1997) in addition to clients and they need to compete in both employer and client markets (Maister, 1982). As a result, PSFs must reconcile the strong and conflicting demands of clients, professionals, and shareholders (Empson & Chapman, 2006; Løwendahl, 2007). Thus, they must balance the tension between professional autonomy versus bureaucratic control (Robertson & Swan, 2003), practice versus business orientation, professional ethics versus economics (Greenwood & Suddaby, 2006), professional creativity versus client pragmatism (Winch & Schneider, 1993), and flexibility versus efficiency (Robertson & Swan, 2003).

To balance the contradicting demands of employees and shareholders, the majority of PSFs have traditionally been organized as partnerships (Alchian & Demsetz, 1972; Fama & Jensen, 1983; Greenwood et al., 1990; Galanter & Palay, 1991; Sharma, 1997; Empson & Chapman, 2006). This type of organization is distinct as a result of a very limited focus on planning and analysis and a strong focus on autonomy and consensus (Greenwood et al., 1990). As professionals undertake roles of owners, managers and employees in the partnership, the incentives and goals across these stakeholders are aligned and conflicts are reduced.

That said, increasing numbers of PSFs have been incorporating in recent years, in order to become more businesslike and to add managerial layers to respond to litigation and external pressure in the form of deregulation, competition, and increasingly competent clients (Cooper, Hinings, Greenwood & Brown, 1996; Dirsmith, Heian & Covalski, 1997; Morris & Pinnington, 1998; Shafer, Lowe & Fogarty, 2002; Robertson & Swan, 2004; Brock et al., 2007). An increasing number of PSFs have also been floated on the stock market (Robertson & Swan, 2004; von Nordenflycht, 2007).

The extensive autonomy and bargaining power of the professionals in PSFs imply that people in these firms follow directive managerial authority to a limited degree (Greenwood et al., 1990). Thus, while the formal power of management in PSFs is not likely to be extensive, professional values are essential in these firms (Robertson & Swan, 2003; Brock et al., 2007) and the informal power of the professionals through their expertise limits the actual power of non-professional management (Løwendahl, 1997; Empson, 2000). PSFs therefore rely heavily on consensus based decision-making (Greenwood et al., 1990) and assign management tasks to respected professionals. Consequently, management tasks are often done as a part-time activity in addition to client work (Gummeson, 1979; Løwendahl, 1992; Maister, 1993; Lorsch & Tierney, 2002).

The work of professionals in PSFs primarily takes place in projects (Maister, 1982). While practitioners in different PSF industries might refer to assignments or cases rather than projects, the project concept reflects the temporary nature of value creation in PSFs. In project management literature, projects are defined as critical one-time undertakings, with specific goals and complex task interdependencies that are infrequent and unfamiliar to the organization (e.g. Stewart, 1965; Goodman, 1967). However, while projects in most traditional companies are something extraordinary, they form the core business of PSFs. Thus, PSFs are often referred to as project-based firms (Arthur & Defillippi, 1998; Lindkvist, 2004). One challenge in project-based organizations is that value is co-produced with actors outside the firm (Gann & Salter, 2000; Grabher, 2002). Thus, a firm's control over its value creating activities is limited. Some scholars even claim that project based organizations cannot be referred to as firms (Grabher, 2002). In an effort to overcome these challenges, PSFs often apply a dual management and organizational structure; at the firm and at the project level (Gann & Salter, 2000).

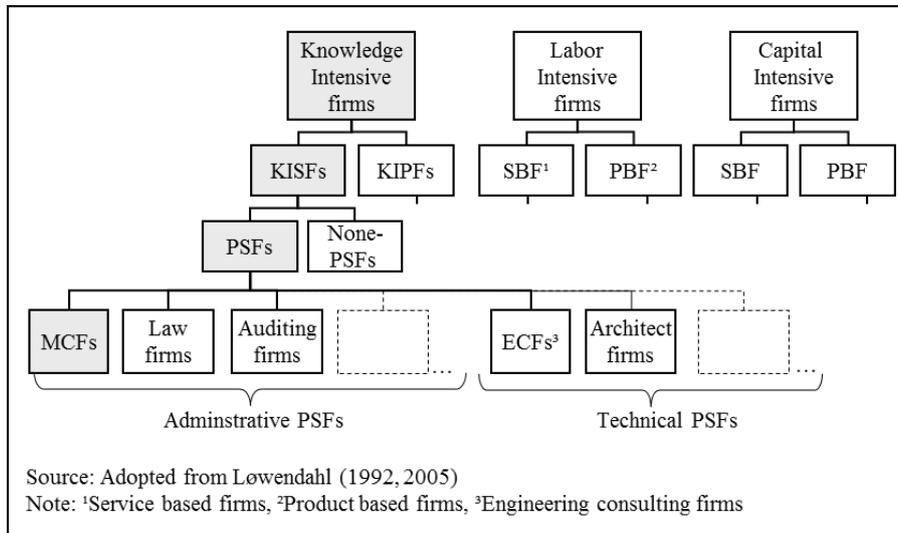
### **4.3 PSFs and related concepts**

The definition of PSFs should be linked to two very closely related concepts: knowledge intensive firms (KIFs) and management consulting (MC). These two concepts represent large separate research traditions that interlink heavily with literature on PSFs, and this will be leveraged to inform the research presented here. An overview of how these concepts interlink is set out in Figure 4-2.

KIFs are '*companies where most work can be said to be of an intellectual nature and where well-educated, qualified employees form the major part of the workforce*' (Alvesson, 2000, p. 1101). KIFs can be product (KIPFs) or service (KISFs). PSFs can be seen as a subcategory of KISFs (Løwendahl, 1997), as shown in Figure 4-2. However, professional conduct is often

emphasized as a defining characteristic of KIFs (Newell et al., 2009). Thus, to the degree that it is argued that the only thing that separates professionals from non-professionals is the foundation in an abstract body of knowledge (Abbott, 1988; Sharma, 1997), the difference between KISFs and PSFs is formalistic rather than real.

Figure 4-2: Overview of interrelationship between KIFs, PSFs and MCFs



One difference across KISFs and PSFs concerns customization. While professional services typically are targeted at particular customers and involve customization and individual professional judgment, KISFs solve complex problems through the application of knowledge and development of creative and innovative solutions (Sveiby & Risling, 1986) that might or might not demand customization. Thus, it still seems helpful to make a distinction between professional and non-professional service firms.

Whereas PSFs and KIFs refer to types of firms, management consulting is often used to refer to an industry or occupational sector (e.g. Buono, 2001; Kipping & Engwall, 2003). The International Council of Management Consulting Institutes defines management consulting as *'the rendering of independent advice and assistance about the process of management to clients with management responsibilities.'*<sup>2</sup> Thus, management consulting includes consulting within, for example, human resources, information technology, finance, organization, strategy and marketing (Kubr, 1996).

<sup>2</sup> <http://static.icmci.org/?page=1845486>

A key question that has been discussed relative to management consulting services is whether or not they are professional (Løwendahl, 1992; Kyrö, 1995; Alvesson & Johansson, 2002; Kam, 2004). However, as argued by one of the key contributors to the field of management consulting (Kubr, 1996), the industry is on its way to developing into a profession. Thus, in the following, management consulting firms are considered a subcategory of PSFs.

#### **4.4 Types of PSFs**

Based on the proposed characteristics, a number of different types of firms can be characterized as PSFs. Examples are firms within accounting, medicine, advertising, architecture, communication consulting, engineering design, legal advice, and management consulting. However, PSFs represent a multifaceted category of firms and the application of research from one category to another can easily be questioned. Thus, developing an understanding of the diversity of the PSF category and how the research presented here fits into these categories is important to determine its applicability across the PSF category. Extensive research has been done to propose separations in the types of services these firms supply.

Within marketing research, a number of authors have long suggested that classification schemes of services are important (e.g. Judd, 1964; Rathmell, 1974; Kotler, 1980; Lovelock, 1980, 1983; Bowen, 1990). Service categorization has also been done in the area of professional services. Professional services can be sold both to individuals, such as most dental or medical services, or to companies, for example in the form of engineering design or advertising services (Gummesson, 1977; Gummesson, 1978; Løwendahl, 1992; Day & Barksdale, 2003). Past research has referred to these different types of services as consumer and producer services (Gummesson, 1978). While some services, such as law services, can be both consumer and producer services, the distinction is important in developing an understanding of the buyer.

Additionally, a useful distinction can be made between technical and administrative professional services (Gummesson, 1977). The former category includes construction and engineering oriented services, such as engineering design, architectural and construction consulting services. Administrative professional services are targeted at problems that are administrative in nature and include services within management and IT consulting, auditing, and law. The research presented in the following focuses on administrative professional services (APSs) and service firm delivering such services – administrative professional service firms (APSFs).

Seminal scholars within PSF research (Maister, 1982; Greenwood et al., 1990; Løwendahl, 1992; Maister, 1993; Cooper et al., 1996; Løwendahl, 1997; Brock et al., 2007) propose classifications of PSFs based on business models and strategies and governance structures. Maister (1993) points to three different types of business model that are used to govern PSFs: brain, grey hair, and procedurally based practices. Brain based models focus on offering expertise, diagnosis and highly customized solutions. These companies consist primarily of specialized experts with a reputation for their expertise. They generally discourage long term client relationships to avoid client demand for diversification and the undertaking of routine projects that are not linked to their specialization. PSFs that build on a grey hair business model offer experience, and often rely heavily on long term client relationships where they offer a range of services within their area of expertise. Finally, the procedural business model offers efficient solutions to client problems based on procedures and standardized solutions. Maister (1993) argues that strategic trade-offs exist that make it difficult for firms to compete on all these sources of advantage simultaneously. In particular, he emphasizes that resource leverage represents a key trade-off across the different business models, making it difficult to utilize more than one model at a time. He also suggests that PSFs are likely to want to enhance profitability and grow through leveraging client relationships and junior resources. As a result, these types of firms are likely to move from the 'brain' to the 'gray hair' and the 'procedural' practice.

Løwendahl (1992, 1997), found that PSFs usually choose between three different strategies: client relations, problem solving, and solutions. These strategies overlap with the business models proposed by Maister to some degree, but the argument for the categorization is different. Løwendahl (1992; 1997) points out that firms with a focus on different strategies are likely to experience trade-offs relative to resources in terms of whether they are individually or organizationally controlled and what types of resources are needed. Whereas relation based firms are primarily based on individual resources in the form of relationships as well as knowledge, problems solvers rely on individual expert knowledge in addition to more collectively controlled systems, project management tools and company and individual reputation Starbuck (1992: 733) illustrates the trade-off in terms of the types of resources needed across expert and relationship based firms in the following quote: '*...experts having the strongest social skills are not normally those with the greatest technical expertise.... If KIFs allow client relations to dominate too strongly...they may lose key technical expertise. Instead of thinking that they work for firms, technical experts may think firms exist for their benefit and should be working for them.*' However, while Løwendahl (1992, 1997) suggests that firms usually make a choice when it

comes to what types of resources they emphasize, Starbuck points out that these different types of skills must be balanced.

Finally, solution based firms rely extensively on collective resources in terms of solutions, knowledge base and reputation. The variation in dominance of individual and collective resources is likely to demand very different governance structures and represents a trade-off across the different strategies. While firm size might enable some of these resource trade-offs to be overcome, it is likely to be difficult to achieve superior performance by following several strategies at the same time. An ambition of the research that will be presented in the following is to explore the relevance of trade-offs from a customer perspective.

In an initiative to develop professional service firms as a separate field of research, Nordenflycht (2010) develops a taxonomy of knowledge intensive service firms. In particular, he uses three main distinctive characteristics of PSFs - incorporated as part of the definition of PSFs above - to separate types of firms: knowledge intensity, capital intensity and degree of work force professionalization. Based on the variation across these characteristics, he identifies four main types of KIFs: classic PSFs, professional campuses, neo-PSFs, and technical developers. Classic PSFs are strong in terms of all three characteristics presented above. We find these types of firms within accounting, law and architecture. Professional campuses are knowledge intensive and professional, but capital intensive. Neo-PSFs have both low capital intensity and are knowledge intensive, but do not have a professional workforce. Finally, technology developers are knowledge intensive, but not professional or have low capital intensity. The research presented in the following will focus on classic PSFs and neo-PSFs.

#### **4.5 Sources of CA in PSFs**

It was not until the 1980s, following the extensive growth and increased competition in many PSF industries, that scholars became interested in the strategy and strategic management of these types of firms to a significant degree (Maister, 1982, 1985; Sveiby & Risling, 1986; Lorsch & Mathias, 1987; Tierno, 1987; Eccles & Crane, 1988; Alvesson, 1989)<sup>3</sup>. In fact, some of the seminal articles, books and theses on the management of PSFs and KIFs were not published until the 1990s (Greenwood et al., 1990; Løwendahl, 1992; Starbuck, 1992; Maister, 1993; Winch & Schneider, 1993; Løwendahl, 1997). Thus, the strategically oriented research on PSFs is a relatively new field. Even so, since the 1990s, research on PSFs has exploded and become very diverse.

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<sup>3</sup> For one exception please see McDonald and Stromberger (1969).

In order to develop an in-depth understanding of competitive advantage in PSFs, existing research that deals with the sources of advantage of these types of firms is presented below. Qualitative research is discussed first, followed by quantitative research. The limitations of the research are then addressed to identify areas where more research is needed.

#### **4.5.1 Qualitative research on the CA of PSFs**

PSF research emphasizes that these types of firms are highly dependent on individuals and that it is often the individual rather than the firm that is offered to and hired by clients (Maister, 1982; Løwendahl, 1992; Maister, 1993; Løwendahl, 1997). Thus, individual employees are important sources of competitive advantage from a PSF's perspective, and the organizations are very sensitive to employees leaving the firm (Løwendahl, 1992; Maister, 1993; Nachum, 1996; Løwendahl, 1997; Morris et al., 1998). The extensive dependence on individuals by the firm is problematic from a firm perspective as it strongly limits the bargaining position of the firm and its ability to develop coherent firm goals and strategies (Løwendahl, 1997). Also, it limits the ability to appropriate rent from a resource as pointed out under the discussion of the RBV.

In his seminal study of successful PSFs, Maister (1985) finds that these firms are characterized by loyalty, teamwork, conformity and a limited focus on individual stars. Additionally, they are characterized by long hours and hard work, a sense of mission and extensive focus on client service (Maister, 1985, 1993). To develop and retain such a position, Maister points out that the firm should, among other things, implement highly selective recruiting, firm wide training, firm level compensation, open communication, consensus based decision making, and controlled and selective organic growth.

Similar ideas were proposed by Liedtka et al. (1997), who look at characteristics of successful PSFs and point out that their success is dependent on a 'generative cycle'. This cycle is based on the reinforcing effect of having the best professionals and clients. However, while the 'generative cycle' might be reinforcing, the demands of the best professionals and clients might be conflicting. Thus, the PSF must focus on selecting, training and retaining the best professionals; be able to handle complex problems and be known for innovative solutions; focus on clients and client management; and retain clients who are willing to invest in cutting edge solutions that push the professionals to develop new knowledge. The interaction across these different characteristics represents a generic cycle, which in itself is a source of advantage. Copying the advantage demands copying an entire system and enables the firm to achieve a system based

rather than an individually based competitive advantage. Such system thinking could be seen as similar to the strategic activity trade-offs presented by Porter (1996).

The extreme importance of individuals in PSFs – and in particular individual stars - is further elaborated on by Lorsch and Tierney (2002). Based on a study of 18 successful firms these authors point out that what separates these firms from the less successful is their ability to align the goals, desires and development of the individuals with those of the organization. They point to five firm based mechanisms that could be used for such alignment: a strategy that takes into account the desires of the stars, a people system that enables the development of stars – but that puts the ‘firm first’, a career system that emphasizes the holistic view on the individual stars – and support goals beyond those that are primarily work related, a partnership organization to ensure strong internal relationship and participation, and a people, relationship and team based culture that views the firm as their community and legacy.

Concerning the latter point, a number of scholars have also pointed to normative and socio-ideological modes of control, in the form of organizational culture and professional identity (Alvesson, 1991, 1992; Starbuck, 1992; Alvesson, 1995; Alvesson, 2000; Robertson & Swan, 2003; Alvesson & Kärreman, 2004; Alvesson & Empson, 2008). As it is likely to be difficult to achieve control through formal authority in these types of firms (Maister, 1993; Løwendahl, 1997; Robertson & Swan, 2003), it is essential to try to develop a culture of what can be referred to as responsible autonomy, which is based on professionalism and consensus (Robertson & Swan, 2003). From a critical perspective it has been suggested that such a culture can function as a reinforcing mechanism that develops the professionals’ perception of themselves as experts – making them able to act as experts relative to clients (Alvesson, 1993; Alvesson, 1995; Robertson & Swan 2003). Through the development of a strong organizational culture, normative control can be achieved. This increases the loyalty of the workforce (Robertson & Swan, 2003) and impacts the degree to which the firm can develop sources of competitive advantage beyond the individuals.

The research presented above has, however, to a limited degree considered what the actual sources of advantage are from a client and market point of view. One of the authors that makes an attempt to extend our understanding in this respect is Maister (1993), who focuses on client benefits to propose different business models of PSFs. Building on his own experience with PSFs, Maister (1993) points out, as touched upon above, that PSFs primarily offer three main benefits to clients: expertise, experience and efficiency. All

these benefits can be linked to the type of knowledge base of the PSF and will be treated in the following.

A number of researchers have pointed to knowledge or expertise as the most essential source of competitive advantage for PSFs (Starbuck, 1992; Hargadon, 1998; Morris & Empson, 1998; Ruggles, 1998; Hansen et al., 1999; Sarvary, 1999; Empson, 2001; Fink, 2001; Løwendahl et al., 2001; Morris, 2001; Ofek & Sarvary, 2001; Fosstenløkken et al., 2003; Robertson, Scarbrough & Swan, 2003; Werr & Stjernberg, 2003; Beaverstock, 2004; Haas & Hansen, 2005; Skjølsvik et al., 2007). Knowledge has been assumed to exist at the individual as well as the collective level (Løwendahl, 1992, 1997; Løwendahl, Revang & Fosstenløkken, 2001). At the individual level, the knowledge can be related to skills and talent for doing particular types of tasks that are based on education as well as firm and industry experience (Morris et al., 1998; Hitt et al., 2001). It can concern factual knowledge about a particular topic, an industry or a particular client (Morris & Empson, 1998).

At the collective level, knowledge refers to experience, procedures, routines, ways of doing things, and even culture (Løwendahl, 1992, 1997; Løwendahl et al., 2001; Fosstenløkken, 2007). Experience refers to the portfolio of past projects, which is embedded in the experience record of the firm – e.g. in internal and external firm references (Løwendahl, 1997). Additionally, collective knowledge includes approaches, methods and tools (Werr, Stjernberg & Docherty, 1997). Extensive research has been done to develop an understanding of knowledge management and development in PSFs (Starbuck, 1992; Hargadon, 1998; Morris & Empson, 1998; Hansen et al., 1999; Sarvary, 1999; Løwendahl et al., 2001; Ofek & Sarvary, 2001; Fosstenløkken et al., 2003; Fosstenløkken, 2007). This research recognizes the dynamic nature of PSF competition and points out that the learning abilities of the PSF are essential to be competitive, in addition to the actual knowledge base of the firm.

In addition to the knowledge based sources of competitive advantage, Løwendahl emphasizes that relational resources – in particular in the form of reputation and relationships – are essential sources of competitive advantage for PSFs (Løwendahl, 1992, 1997, 2005). She points out that both reputation and relationships are resources that are partially controlled outside the firm – by the client – and only partially controlled by individuals in the firm or at the collective level of the firm. However, as her research is primarily oriented towards firm internal issues, Løwendahl does not consider in detail the dimensions of these types of resources or how they lead to a competitive advantage. Taking a normative point of view and building on personal experience, Maister and his colleagues (Maister et al., 2000) also emphasize

the essential role of the client-professional relationship – and in particular of trust – for the success of PSFs.

#### **4.5.2 Quantitative tests of the different sources of CA**

While the above presented research and literature is descriptive and qualitative in nature, more recent research has been done to test the impact of different sources of advantage on PSF success. This research consists of the contributions of a relatively limited number of scholars that have tested the effects of performance by looking at survival (Nachum, 1996; Pennings, Lee & van Witteloostuijn, 1998), net income over total revenue (Nachum, 1996; Hitt et al., 2001; Hitt et al., 2006), and revenue (Greenwood et al., 2005; Greenwood, Deephouse & Li, 2007). The studies includes advertising (Nachum, 1996; Von Nordenflycht, 2007), accounting (Pennings et al., 1998; Greenwood et al., 2005), law (Hitt et al., 2001; Hitt et al., 2006), and management consulting (Greenwood et al., 2007). A detailed overview of the studies is presented in Appendix 1. The following sources of competitive advantage were included in the studies:

- Human capital measured as partner length of education and (industry and firm) experience and quality of educational institution.
- Firm size measured as number of employees, professionals, partners, and offices, in addition to revenue.
- Leverage measured as number of associates per partner.
- Service diversification measured as number of service lines offered and as employees of largest five service areas compared to total number of employees. Balanced diversification was also considered in one study and measured as the balance of revenues across four key service lines.
- Relational/social capital measured as number of large corporate clients, the continuity and internationalization of large corporate clients, partners/juniors leaving/coming from client environments, and accounts lost during the last year.
- Reputation measured as positive media reports or client opinions
- Firm age measured as number of years since founding.
- Internationalization based on revenue, number of offices and lawyers abroad.
- Geographical diversification measured as employees at four largest offices compared to the rest of the firm.
- Creativity measured as number of awards.
- Ownership in terms of whether the firm was publicly owned, a private corporation or a partnership.
- Turnover measured as partners leaving the firm during the last year.

Common for the quantitative studies is that they find that human capital, firm size and resource leverage impact success. Additionally, two studies

suggest that internationalization and reputation have positive effects on survival and profit. Thus, these findings seem to suggest that knowledge, the reputation of that knowledge, the firm's resource pool size and leverage, as well as internationalization are important for competitive advantage in professional services.

Four studies take into consideration relational capital (Nachum, 1996; Pennings et al., 1998; Hitt et al., 2001; Hitt et al., 2006). Two of the studies include relatively unsophisticated measures of this type of capital in the form of accounts lost during the last year (Nachum, 1996) and number of clients among 250 US corporations (Hitt et al., 2001). These studies suggest that relational capital does not have any significant impact on PSF success. However, among those studies that have developed more sophisticated measures of relational capital (Pennings et al., 1998; Hitt et al., 2006) and that look at partners coming from and leaving client environments, as well as the continuity of relationships with the 250 largest US corporations, relational capital was found to be significant. Even so, these inconsistent results suggest that to develop a more in-depth understanding of the impact of client-professional relationships on PSF success, there is a need for further exploration of how relational capital impacts performance and the competitive advantage of PSFs.

#### **4.5.3 Summary and point of departure**

Based on the research presented, a number of alternative sources of competitive advantage have been identified. These different sources of advantage can be categorized into five main areas: individuals, firm, knowledge, relational capital/resources, and service. A detailed overview of the different categories and the sources of advantage is presented in Figure 4-3.

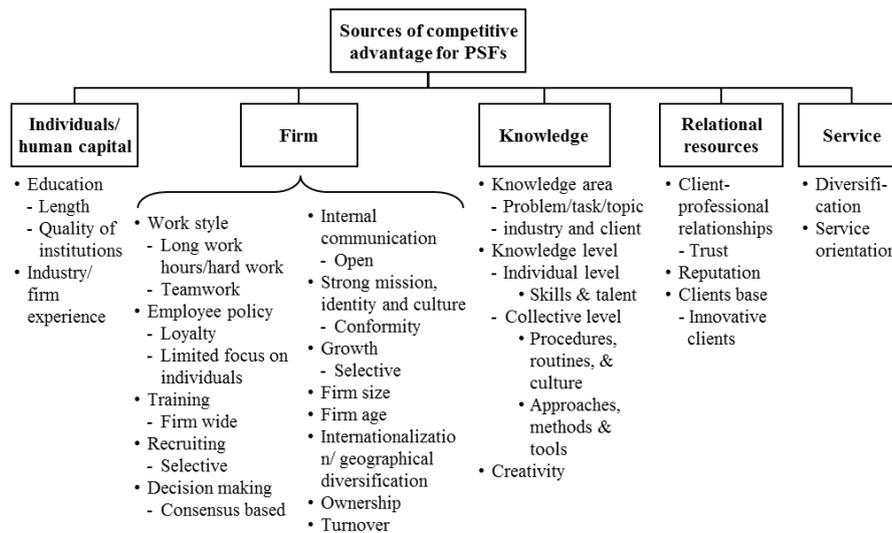
A key defining feature of the sources of advantage presented is the extensive internal firm orientation. The existing research has added important insight concerning firm specific sources of advantage – i.e. resources and capabilities – and has been used as a conceptual starting point for much of the quantitative research presented above. However, the internal orientation has resulted in an imbalanced view on the sources of competitive advantage in PSFs, where internal stakeholders have been emphasized over external constituents – such as customers and market characteristics.

While scholars began to gain interest in the marketing and management of PSFs in the late 1960s and 1970s (Wittreich, 1966; Turner, 1969; Wilson, 1972; Gummesson, 1977; Gummesson, 1978; O'Conner, 1978; Gummesson, 1979), there has been limited integration of this research into the

understanding of the competitive advantage of these types of firms. Thus, with only a very limited number of exceptions (e.g. Maister, 1993), the market side of the PSFs, and in particular the client perspective, has been largely neglected in the quest to understand PSF management and strategy.

The internal orientation of research on PSFs is not only a strategy and management phenomenon. Scholars studying PSFs in marketing (i.e. Devlin, 2001) have emphasized the need to apply a market-led view on competitive advantage (Mathur, 1988; Bowman, 1992; Czepiel, 1992; Mathur, 1992; Bowman & Faulkner, 1997; Parasuraman, 1997; Slater, 1997; Woodruff, 1997). In the following, existing research on the client perspective will be used to develop a more in-depth understanding of competitive advantage from a client point of view.

Figure 4-3: Overview of identified potential sources of competitive advantage for PSFs.



Another key characteristic of past research on the sources of competitive advantage available to PSFs is that it has refrained from defining and measuring the concept of a competitive advantage. The measures of success that have been included in the quantitative studies are survival (Nachum, 1996; Pennings et al., 1998) and performance (Nachum, 1996; Hitt et al., 2001; Greenwood et al., 2005; Hitt et al., 2006; Greenwood et al., 2007). However, in the case of the concept of performance, there seems to be limited common understanding of the most suitable measure. Variables that have been used are net income over total revenue (Hitt et al., 2001; Hitt et al., 2006), total revenue over number of employees (Greenwood et al., 2005;

Greenwood et al., 2007), and growth as the percentage annual change in revenue (Von Nordenflycht, 2007). Another concern related to the performance measures is that as PSFs are often privately held, it is generally difficult to get access to relevant data (Greenwood et al., 2007; Von Nordenflycht, 2007).

However, the problems are more fundamental than the question of what to measure or how to get access to data. A number of authors have pointed to the difficulty of measuring the actual outcomes for PSFs and KIFs (Nayyar, 1990; Alvesson, 1993; Clark, 1993, 1995b; Glückler & Armbrüster, 2003). Professional services involve considerable performance ambiguity and uncertainty about whether an outcome is a result of the service given or not (Bowen & Jones, 1986; Day & Barksdale, 1994). Thus, there exists a specification and evidence problem that makes measuring actual service performance difficult (Shostack, 1977; Roodhooft & Van den Abbeele, 2006).

Additionally, PSFs have to balance strong stakeholder groups that have very different objectives (Maister, 1982, 1985; Løwendahl, 1992; Løwendahl, 2007). The contradicting demands of these different groups could make it difficult to determine what types of measures are suitable to determine the actual competitive advantage of the firm – not only in the short run, but also over time and for different stakeholder groups. As professionals are often very concerned with knowledge development and motivation as key objectives, measuring economic performance might not reflect an accurate understanding of the actual competitive advantage of a PSF (Sibson, 1971; Maister, 1985; Løwendahl, 1992; Nachum, 1996). Thus, while looking at financial performance might give an indication of the potential for an advantage, financial measures give indications to the owners at the cost of two other key stakeholder groups – the professionals and their clients.

The employee and firm perspective has been covered in much of the existing research on the competitive advantage of PSFs (Maister, 1982, 1985; Løwendahl, 1992; Løwendahl, 2007). This is not surprising as the professionals and the knowledge they hold are essential resources in the value creation in these types of firms (Løwendahl et al., 2001). However, as value creation in professional service firms has to an increasing degree been recognized as co-produced with clients and customized to their needs (Bettencourt et al., 2002), the relevance of the client perspective has recently increased. However, relatively limited research has been done to understand the client (Sturdy, Werr & Buono, 2009), and to understand competitive advantage from a client perspective. By focusing on developing a client-oriented understanding of competitive advantage and adding this perspective

to the existing internally oriented research, the research presented in the following aims to add to existing knowledge on PSFs.

#### **4.6 Research into client-professional relationships as sources of CA of PSFs**

The research that focuses on client-professional relationships can be categorized into two main approaches:

- a) Research that deals with the nature of the client-professional working relationship (e.g. Argyris, 1961; McGivern, 1983; Bloomfield & Danieli, 1995; Fullerton & West, 1996; Halinen, 1997; Fincham, 1999; Mills & Moshavi, 1999; Hislop, 2002; Fincham, 2002/2003; Handley, Sturdy, Clark & Fincham, 2006; Nikolova, 2007; Nikolova, Reihlen & Schlapfner, 2008; Nikolova, Reihlen & Schlapfner, 2009), and the roles of clients and professionals (Mills & Morris, 1986; Bloomfield & Danieli, 1995; Hislop, 2002).
- b) Research that focuses on the benefits and management (Karantinou & Hogg, 2001; Bettencourt et al., 2002; Karantinou & Hogg, 2007) of client-professional relationships from a PSF point of view. In addition, there are practitioner oriented books that focus on the foundation of the working client-consultant relationship and how it can be developed to achieve success (Maister et al., 2000; Czerniawska, 2007). However, only one book was found that tries explicitly to understand how the relationships lead to competitive advantages for PSFs (Dawson, 2000).

The research that deals with the conceptualization of the client-consultant working relationship is interesting to develop an in-depth understanding of the concept itself, and will be touched upon below in the description of the relationship. The research within this tradition is primarily descriptive and does to a limited degree consider why and how the relationship lead to a competitive advantage. In the following, the literature that takes into consideration PSF relationship benefits will be addressed as a point of departure.

While commonly used as a practitioner-oriented book targeted towards professionals, 'The Trusted Advisor' (Maister et al., 2000) is a seminal book when it comes to emphasizing the importance of developing deep relationships with clients. It has gained extensive popularity among professionals, and the concept has been further elaborated on by later books (Green, 2006; Czerniawska, 2007). In particular, Maister et al. (2000) emphasize that trust is a major source of competitive advantage in professional services and point to a number of benefits that the role of the 'trusted advisor' is likely to give a seller. Among others they emphasize more assignments, more assignments of strategic relevance, better

references, respect and accommodation for suggestions, protection and warning from problematic situations, early involvement in issues, better understanding of issues, as well as comfort and reduced effects of potential mistakes. While the book provides interesting insight into the potential benefits of being a trusted advisor from a seller point of view, it does not make a point of addressing the degree to which clients in fact want trusted advisors.

One of the few pieces of work that take a two-sided perspective in understanding client-professional relationships is Karantinou et al. (2001). They build on six consultant and six client interviews to consider benefits and costs of client-consultant relationships. From a consultant's point of view, they find that PSFs consider both benefits as well as costs in their relationship management. From a client point of view, Karantinou et al. (2001) focus extensively on the diversity of client preferences – both in terms of keeping long-term repeated exchange relationships and in terms of what was considered important for a perception of relationship quality. In their later work (Karantinou & Hogg, 2007), the same authors develop dimensions important for the development and management of successful relationships. Common across the contributions by Karantinou and Hogg is an orientation towards relationship management rather than understanding how it impacts client perception of value and PSFs' competitive advantage.

Bettencourt and his co-authors (Bettencourt et al., 2002) take a co-production point of view on services (Lovelock & Young, 1979; Pfeffer, 1994). They suggest that factors that are important for employee job performance are also important for clients to perform well. Based on qualitative research they identify seven 'client role responsibilities'. The degree to which clients have or develop these role responsibilities is assumed to lead to effective co-production, client satisfaction and a competitive advantage for the KIBS firm. Thus, while incorporating the client perspective to understand the competitive advantage of PSFs, they primarily take the KIBS point of view and focus on the characteristics of the client, rather than the characteristics of the relationship. Bettencourt et al. do in turn link the role responsibilities to effective client co-production, which is assumed to impact the competitive advantage of the PSF. However, the link between the co-production and the competitive advantage is not explained further. Building on past research by Løwendahl, Revang and Fosstenløkken (Løwendahl et al., 2001; Fosstenløkken et al., 2003), Skjølsvik et al. (2007) has extended the framework proposed by Bettencourt et al. to suggest that client-interaction is important not only relative to the solution in a particular assignment, but also to ensure learning for the PSF, which impacts the firms future competitive advantage. Skjølsvik et al. (2007) also take primarily a PSF perspective with limited concern for the client's perception of value.

The link between client-professional relationships and knowledge has also been emphasized in practitioner oriented literature. Dawson (2000) points out that knowledge is about relationships, as sharing and transferring knowledge is at the heart of what professional business services is about. In turn, trust and intimacy in the form of socialization and rich interaction is essential for knowledge sharing. Building on this perspective, Dawson points out that relationships lead to increased interaction, which in turn has three main effects on client value: better understanding of the client's knowledge processes and styles, more trust, and better knowledge sharing. Dawson additionally points out that this process is likely to enable PSFs to more easily uncover new business opportunities and customize communication. The research presented in the following aims to empirically study the effect of the relationship on client perceived value in greater depth.

#### **4.7 Summary and point of departure**

The research presented above suggests that trust-based relationships are an important mechanism that can be leveraged by PSFs to gain advantages. However, limited empirical research explores in detail how relationships impact the competitive advantage of PSFs. In fact, only limited conceptualizations of the notion of a competitive advantage exist and the demand side perspective on competitive advantage is lacking from existing research.

To provide a framework for future research needs, a separation is made between conceptual and empirical work and across competitive advantage, the client-professional relationship, and the combination of the two areas. An overview of this is presented in Table 4-1. In terms of the conceptual understanding of what a competitive advantage is, more work is required. Thus, there is a need for both conceptual and empirical work that recognizes competitive advantage as determined not only by resource supply, but also by demand side characteristics in the form of customer preferences and the contingencies for these different preferences. Relative to the client-professional relationship, extensive research has been done to understand these relationships. Thus, the research presented in the following does not primarily intend to add to the understanding of these relationships. Rather, it seeks to understand these relationships as sources of competitive advantage, a topic which has been addressed to a more limited degree in past research.

By comparing Table 4-1 with Table 3-1 in Chapter 3, extensive overlap in terms of the need for research across the RBV and research on PSFs can be identified. In particular, both perspectives require better conceptualizations of value and competitive advantage as determined not only by resources, but also by demand side characteristics. Further, there is a need to develop a

better understanding of the value of partially firm controlled resources within the RBV. As client-professional relationships must be considered partially PSF controlled resources, studying the value of these relationships is likely to enable contributions not only to PSF research, but also to the RBV. This alignment relative to the need for future research indicates that to simultaneously build on these two theoretical pillars is unproblematic.

*Table 4-1: Overview of “white spots” within PSF research*

Relevant constructs	<i>Work needed</i>	
	<i>Conceptual</i>	<i>Empirical</i>
<i>Competitive advantage</i>	Conceptualization of competitive advantage incorporating the demand side, i.e. customer perceptions and contingencies	Research on competitive advantage as determined by demand side markets, i.e. customer perceptions and contingencies
<i>Client-professional relationship</i>	Extensive research done to understand client-professional relationships	Extensive research done to understand the client-professional relationship
<i>Both</i>	Conceptualization of client relationships as sources of competitive advantage - As contingent and based on client considerations	Empirically based understanding of client relationships as sources of competitive advantage - Particularly from a client point of view

## **PART III: THEORETICAL DEVELOPMENT AND CONCEPTUAL MODEL**

The following Chapter 5 extends the RBV into what will be referred to as '*the open RBV*', based on the white spots and research opportunities identified in the literature review in Chapter 3. This extended perspective incorporates the notion of a competitive advantage as determined by demand-side markets and resources that are only partially controlled by the firm. It represents the theoretical starting point of the conceptual model used to guide the research presented here.

Following the presentation of the theoretical point of departure, a research model of competitive advantage for PSFs from a client point of view is included in Chapter 6. This initial model is intended to function as a means of identifying the relevant concepts and sub-concepts that will then be considered in detail. Among relevant concepts are: net customer value in professional services, which can be understood by looking at customer benefits and sacrifices (Chapter 7), client selection, which can be understood by looking at client selection processes and criteria (Chapters 8 and 9), and the client-professional relationship (Chapter 10). Based on an in-depth review of research on customer relationship value, a detailed research model is proposed in Chapter 11. As a final part of the section, relevant contingencies for the presented impacts are addressed (Chapter 12) as a conclusion to Part III.

## **Chapter 5: Theoretical development: ‘The open RBV’**

### **5.1 Introduction**

Based on the “white spots” of the RBV identified above, the following chapter aims to develop an extended version of the perspective – referred to as ‘the open RBV’. In section 5.2, revised conceptualizations of competitive advantage (CA), value and resource value that recognize the relevance of demand-side markets are presented as starting points. In section 5.3, the assumption of firm resource control is discussed. A revised understanding of control is proposed by changing the assumption of firms as atomistic entities. Instead, firms will be viewed as embedded and consisting of stakeholders. Finally, section 5.4 incorporates the two previous sections into ‘*The open RBV*’. Included in this section is a discussion of the implications of including a demand-side oriented notion of a competitive advantage and partially externally held resources into the RBV; and the changes in underlying assumptions needed to do this.

### **5.2 Demand-side based CA**

In essence, the RBV is a perspective trying to add knowledge to our understanding of firm competitive advantage, and the fact that resources represent sources of such an advantage. Barney (1991) was one of the first scholars to recognize that resource advantages must be linked to the demand-side market (Peteraf & Bergen, 2003). He proposed ‘resource value’ as an intermediary concept linking resources and the existence of a CA in the demand-side market. This concept has, however, garnered extensive criticism and a number of researchers have pointed to the circularity of the resource value and CA definitions (Priem & Butler, 2001a, b; Lockett et al., 2009; Kraaijenbrink et al., 2010). As a result, a number of scholars, including Barney himself, have pointed to a need for clarification of the concepts of resource value and CA (Barney, 2001; Priem & Butler, 2001a, b; Kraaijenbrink et al., 2010).

At the same time, conceptual and empirical (e.g. Miller & Shamsie, 1996; Brush & Artz, 1999) research building on the traditional RBV has emphasized the link between resources and environmental conditions in understanding the nature and sources of CA. This demand-side oriented RBV research has been proposed as an interesting point of departure to further develop the RBV as a theoretical perspective and overcome the tautology critique (Barney, 2001). Moreover, the RBV literature review shows that a number of scholars within the perspective recognize that while the sustainability of a resource advantage can be defined by factor markets, competitive advantage is ultimately defined in demand-side markets

(Maijoor & VanWitteloostuijn, 1996). In the following, existing conceptualizations of competitive advantage within the RBV are presented.

### 5.2.1 CA redefined

To follow up the tautology critique, Peteraf and Barney (2003) aimed to clarify the concept of value and CA. In their view: *'An enterprise has a competitive advantage if it is able to create more economic value than the marginal (breakeven) competitor in its product market'* (2003: 314). In turn, they define economic value as *'the difference between the perceived benefits gained by the purchasers of the good and the economic cost to the enterprise.'* Thus, the conceptualization focuses both on firm costs and customer perceptions. It is a net value perspective that takes into account benefits produced per dollar used by the firm to produce that value. In this way it reflects a 'protective cushion' of the firm in the case of price competition and its efficiency of resource deployment. This perspective also accounts for the relative difference between the value and the cost, independently of level of value and level of cost. In this way, it applies not only to cases where competitors offer exactly the same good, but also across differentiated suppliers and substitutes as well as across customized solutions.

This definition of CA can be viewed as unrelated to resources. In fact, it is identical to the definition proposed by other strategy scholars focusing on CA in general – independently of resources or other sources of advantage (e.g. Hoopes et al., 2003). In particular, Hoopes et al. (2003) refer to this conceptualization of competitive heterogeneity as the Value-Cost-Price (VCP) framework and build on a bargaining framework from industrial economics (i.e. Tirole, 1988). These researchers also point to a number of different strategy scholars who use the framework to explain the notion of CA (Ghemawat, 1991; Walker, 2004; Adner & Zemsky, 2006) and value (Brandenburger & Stuart, 1996; Besanko, Shanley & Dranove, 2000; 2006).

However, while Peteraf and Barney point out that the external market is seen as exogenous and look at resource advantages under ceteris paribus conditions, the external market is included in their definition of CA as they focus on *'benefits gained by the purchasers'*. Still, they see the RBV as an efficiency based theory and claim that *'superior resources are more 'efficient' in the sense that they enable a firm to produce more economically and/or better satisfy customer wants'* (2003: 314). At the same time as they emphasize resource efficiency, they largely overlook the conceptualization, creation and origins of customer perceived value. Research that has focused on the perceived value concept in more depth will be included below. This is done to further incorporate demand-side markets into the definition of CA

### Part III: Theoretical development and conceptual model

within the RBV. By revising the conceptual starting point it is possible to develop the RBV beyond being a perspective on resource efficiency into a perspective on resource effectiveness and efficiency. Thus, rather than leaving the door to the demand-side market ajar, a revised understanding of the concept – that fully opens the door to demand-side markets – is proposed in the following.

Within marketing, scholars typically use an alternative approach to understanding net value than the VCP-framework. In particular, they emphasize total customer benefits relative to customer sacrifices (Zeithaml, 1988). Sacrifices within this tradition include not only the customer's price, but also acquisition and operation costs (Ravald & Grönroos, 1996; Anderson & Narus, 1999; Dahlstrom & Nygaard, 1999; Lapierre, 2000; Menon et al., 2005). In the case of services, acquisition costs refer to costs of buying, monitoring, coordinating and communicating with the supplier (Ellram, 1990; Menon *et al.*, 2005). Thus, acquisition costs largely overlap with transaction costs. Operations costs concern the integration of the service into the everyday business of the customer (Menon et al., 2005). Thus, rather than being concerned with the enterprise cost of producing a product or service, or the price, the marketing tradition emphasizes customer costs relative to customer value perceptions to understand net value.

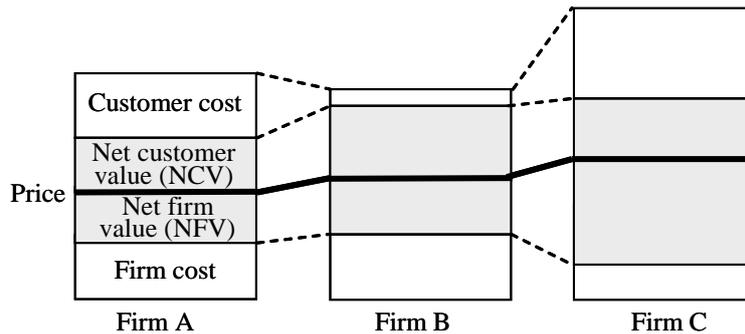
By acknowledging this insight from marketing, a revised understanding and conceptualization of CA within the RBV is proposed. A CA is assumed to exist to the degree that the *net value* a firm offers is larger than the value offered by competing firms. The net value is the combination of *net customer value* and *net supplier value*. *Net customer value* (NCV) is the total benefit of an offering as perceived by the customer, minus the price and customer's cost of utilizing that benefit. *Net supplier value* (NSV) is the price of an offering relative to the firm's cost of supplying that offering. Thus, rather than referring to the Value Cost Price framework, the research presented here proposes a Net Value Cost (NVC) framework. This concept is illustrated by the gray shading in the first bar in Figure 5-1.

As in the case of the VCP-framework, this definition of CA is not only applicable across identical product and service offerings, but can also be used relative to substitutes that cover the given need of a customer. In fact, firms may not only have varying degrees of CA relative to different competitors, but also relative to different types of customers. In this way, the proposed definition recognizes the heterogeneity of demand markets. This is particularly important in the age of customization and co-production (Ramírez, 1999; Vargo & Lusch, 2004), where the firm and its customer create value together in co-operation and where both the supplier firm and the buyer, as well as how they co-operate, determine competition.

Part III: Theoretical development and conceptual model

Additionally, the proposed definition recognizes that firms can be interconnected. It incorporates switching costs, relational rents, and other additional value of a buyer-supplier relationship. The different bars in Figure 5-1 illustrate an example where Firm B has been the buyer’s supplier for some time and has an established relationship with the customer. The value bar for Firm B reflects the existing relational benefits and low acquisition and operation costs of the customer relative to that firm. Based on the VCP definition of a competitive advantage, Firm A would be defined as having a competitive advantage over Firm B if buyer cost were not considered as relevant for competitive advantage. However, even though Firm A offers more value over cost, the acquisition and adaptation costs relative to that supplier are so great that Firm B is likely to be selected over Firm A. Thus, as proposed by the revised definition, Firm B has a competitive advantage over Firm A.

Figure 5-1: Illustration of competitive advantage as NVC



The bar for Firm C reflects the traditional RBV argument. Firm C does not offer more NCV than the existing supplier if the switching cost is considered. This means that it seems unlikely that the buyer will choose Firm C under the given circumstances – which suggests that the firm does not have a competitive advantage. However, Firm C does have an advantage over firms A and B. Firm C’s perceived disadvantage relative to customers is only temporary as the cost base of the firm is very low. By reducing the price, the NCV is increased, which will enable the firm to be selected over both the other firms. Thus, the firm has a ‘superior’ competitive advantage as the combination of NSV and NCV is larger than that of the competition, and it can use its ‘protective cushion’ to lower prices relative to firms A and B to leverage its competitive advantage. Thus, while Firm B has a ‘relative’ competitive advantage over Firm A, Firm C has a ‘superior’ competitive advantage compared to all close competitors and substitutes.

### 5.2.2 Customer buying criteria as antecedents of net customer value

The above proposed definitions of value and competitive advantage are based on an economic point of view and aim to convert benefits and costs into comparative economic entities. This conversion appears necessary to be able to compare benefits and sacrifices. Even so, to truly understand value and competitive advantage, it seems essential to develop an in-depth understanding of their antecedents. By developing an understanding of the sources of benefits and costs as perceived by the customer, it should be possible to tease out some of these antecedents.

By building on this concept of CA, it is possible to separate the resource based sources of advantage from other sources of advantage (Hoopes et al., 2003). However, as many resources indirectly impact the perceived benefits and costs of customers, the traceability from resources to customer perceptions might be difficult. This is likely to be particularly true in the case of product based businesses. In these types of businesses understanding how resources contribute to the product offering might be more important than taking a customer point of view to understand resource value. This is less likely to be the case in services – especially for customized services dependent on customer co-production. In the value creation of such services there is no intermediary standardized service offering intercepting the resources and the customer value perceptions, which is likely to make the resource value more directly observable and measurable. As customized and co-produced service based value creation is an essential form of value creation in the post-modern society – as pointed out in the introduction – studying resource value as perceived by customers in such a setting seems relevant and timely.

Bowman and Ambrosini (2000) take a gross value perspective and point out that value has two main components: ‘value in use’ and ‘exchange value’. While the former concerns the price of the product, the latter concerns the ‘perceived use value’ which is the customer’s ‘*perceptions of the usefulness of the product<sup>4</sup> on offer*’ (Bowman & Ambrosini, 2000: 4). The research presented in the following will focus on use value relative to customer cost. Bowman and Ambrosini point out that: ‘*Use value is perceived by the customer at a point in time, it is assessed at the point of decision to purchase*’ (Bowman & Ambrosini, 2000: 4). Porter (1985) also sees customer buying decisions as a good way to capture perceived customer value. This notion of competitive advantage as linked to ‘customer buying criteria’ has also been used within the RBV (e.g. Hall, 1992). In the following, buyer selection decisions and the criteria they use to select

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<sup>4</sup> Again, an extended definition of a product is used.

supplier firms when selecting providers of knowledge intensive customized and co-produced services, will be used as a way to develop a better understanding of resource value and resources as a source of competitive advantage from a customer point of view. Thus, while past RBV research primarily has studied net supplier value through studying resource efficiency, the research presented in the following focuses in particular on net buyer value of resources – which can be referred to as resource effectiveness.

### **5.3. Partially firm controlled resources within the RBV**

Over time, the lack of firm resource control over intangible resources has become increasingly recognized by a limited number of scholars building on the RBV. One example is Løwendahl (1992, 1997, 2005), who highlights the lack of control that professional service firms (PSFs) have over their resources. By building on in-depth studies of PSFs, which represent extreme cases in terms of their reliance on intangible resources, Løwendahl nicely illustrates that many intangible firm resources are not firm controlled. While she does not look in detail at firm control as an assumption of the RBV, she does propose a framework for the controllability of resources that could be used independently of industry and that offers an interesting extension of the ‘yes’ or ‘no’ typology assumed by the traditional RBV. Figure 5-2, which is an adapted version from Løwendahl (2005), illustrates that a separation should be made between resources that are ‘internally’ and ‘externally’<sup>5</sup> controlled. Additionally, a distinction should be made between resources that are firm controlled and those that are individually controlled. Among the resources over which the firm has the least control – according to Løwendahl – are the client-professional relationships.

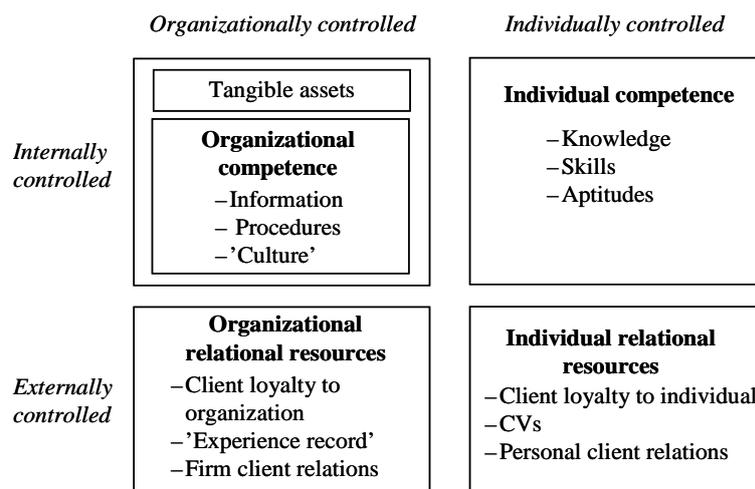
Recent research that has focused on the assumption of firm resource control within the RBV can be categorized within the ‘internal’-‘external’ and the firm-individual dimensions of resource controllability proposed by Løwendahl. First, the relational view of the firm (Dyer & Singh, 1998) and the extensions of this perspective, which recognize the interconnectedness of firms (Lavie, 2006), address the internal-external dimension of resource control. Secondly, the stakeholder based RBV (Coff, 1999; Kim & Mahoney, 2002; Lippman & Rumelt, 2003; Foss & Foss, 2005; Kim & Mahoney, 2006) looks beyond the traditional perception of firms as unitary actors that act on behalf of their shareholders. Rather, firms should be seen as a collection of stakeholders that bargain for a return on their resources. Thus, this RBV perspective focuses on the firm-individual dimension. These

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<sup>5</sup> The ‘internal’ and ‘external’ concepts are shown in quotation marks as it might be difficult to clearly determine what is internal and external as the assumption of firm borders as absolute is relaxed.

two research traditions will be presented in detail in the following and used as starting points to propose a revised concept of resource control which allows intangible resources to be included within the RBV.

Figure 5-2: Controllability of firm resources  
Adapted from Løwendahl (2005)



### 5.3.1 The relational view and its extensions

Using the RBV (Amit & Schoemaker, 1993) and the notion of quasi-rents (Klein et al., 1978) as starting points, Dyer and Singh (1998) point out that specialization of assets is essential for the creation of a competitive advantage. To the degree that firms co-operate and co-specialize, they are likely to be able to develop sources of competitive advantage from their relationship. By building on a number of different streams of literature, Dyer and Singh identify four sources of co-specialization that can lead to such relational rent: relation specific assets, knowledge sharing routines, complementary resources and/or capabilities, and effective governance.

Dyer and Singh (1998) point out that their perspective is complementary to that of the RBV, but that there are important differences making it impossible to integrate relational rents into the RBV:

1. RBV defines resources as controlled and owned by the organization, whereas the relational view considers resources that are not under firm control, but rather controlled jointly by the partners.
2. The unit of analysis is different. While the RBV focuses on the firm, the relational view considers the dyad or network of firms.

### Part III: Theoretical development and conceptual model

3. While the RBV focuses on the isolation of resources from all other firms to ensure a competitive advantage, the relational view focuses on co-operation.

In reviewing research within the traditional RBV relative to these claims, many of their arguments do not hold:

1. Dyer and Singh take what must be referred to as an extremely orthodox perspective of the RBV when proposing that resources need to be owned and controlled by the firm to lead to a competitive advantage. The need for ownership is much stronger than the seminal resource definitions proposed by Barney and by Amit and Shoemaker as presented above. Additionally, Dyer and Singh do not offer an explicit discussion of why resources need to be owned and controlled by an organization to lead to a competitive advantage within the RBV.
2. Seminal researchers within the RBV (e.g. Black & Boal, 1994, based on communication with Jay Barney in 1993) highlight a differentiation in the level of analysis across the dependent and independent variables within the RBV. While the independent variables are assumed to be resources – defined at the resource level, the dependent variable – the sustainable competitive advantage – is defined at the firm level. Thus, at the resource level, it should be possible to integrate relationships and knowledge, as well as other resources within the RBV that are controlled in part externally and in part individually, as long as the dependent variable remains the firm's sustainable competitive advantage. Thus, the claim by Dyer and Singh regarding the need for differentiation in the unit of analysis across the relational view and the RBV does not seem to hold.
3. Dyer and Singh assume that the RBV claims that firms are isolated entities that focus purely on competition rather than co-operation. An alternative view would be to assume that firms are concerned with both competition and co-operation and that the RBV focuses on the development of competitive advantage from resources that are partially or fully controlled by the firm and from resources that the firm can access either through ownership or control or based on co-operation. Such a perspective is in fact more in line with the actual use of the RBV, which has integrated partially externally held resources, as pointed out above. An attempt to develop the RBV in this direction has been made by Lavie (2002, 2006).

Lavie (2002, 2006) suggests that the relational view does not have to be separated from the RBV, but rather can be integrated into it. Lavie takes a slightly more relaxed approach to the traditional RBV than Dyer and Singh (1998). Rather than assuming both resource ownership and control as

### Part III: Theoretical development and conceptual model

assumptions, he points out that the RBV demands ownership or control by the firm to enable the firm to appropriate rent from the resources.

Based on this resource definition, Lavie recognizes that the traditional RBV cannot incorporate resources accessed through and rents resulting from alliances and networks. He refers to these types of resources as networked resources, which are external to the firm and not fully owned or controlled. However, by referring to a vast amount of research, he shows that firms can extract value and rent from such resources, and his intention is to develop the RBV to incorporate such rent. Lavie claims that by relaxing the assumption of firm resource control and acknowledging networked resources, it is possible to develop the RBV to include the competitive advantage of interconnected firms. Thus, as opposed to the 'orthodox' RBV, which assumes that firms are atomistic and faceless and disconnected from their environment (Hakansson & Snehota, 1989; Hunt & Morgan, 1995, 1996), Lavie incorporates into the perspective the notion of firms as interconnected and embedded in their markets.

Lavie develops a notion of competitive advantage of firms which consists of four parts: (1) internal rent, (2) appropriated relational rent, (3) inbound spillover rent, and (4) outbound spillover rent. While the internal rent concept includes the traditional resources considered within the RBV, Lavie points out that this type of rent should also include benefits resulting from relationships with exchange partners that are private to the firm. The appropriated relational rent relates to the benefits that a firm gains from combination, exchange or co-development of resources with partners, which are equivalent to the relational rent proposed by Dyer and Singh. In addition, Lavie points to inbound and outbound spillover rents that result from the erosion of isolating mechanisms and leakage of shared and non-shared resources resulting from co-operation.

An important point made by Lavie is that he sees the resource as the unit of analysis and integrates relational resources among them. At the same time, he identifies the unit of accrual or appropriation as the firm rather than the dyad, as suggested by Dyer and Singh. Thus, an important contribution by Lavie is that he extends the RBV to account for resources that are not fully controlled or owned by the firm as sources of competitive advantage. Even so, while Lavie points to the concept of 'firm resource control' as an assumption underlying the RBV, he does not discuss the concept in detail.

### **5.3.2 The stakeholder based RBV**

By considering firms as unitary and assuming full ownership or resource control (Coff, 1999; Lavie, 2006), the question of whether a firm – in terms of its shareholders – can in fact appropriate rent from its resources has largely been overlooked. Recently, a number of authors have developed a more advanced stakeholder based understanding of the firm within the RBV (Coff, 1999; Kim & Mahoney, 2002; Foss & Foss, 2005; Kim & Mahoney, 2006). Within the stakeholder based RBV it is emphasized that firms are not unitary and focused on achieving shareholder objectives, but consist of different stakeholders with varying interests. Thus, this perspective recognizes the lack of control that a given firm as represented by its stakeholders has over its resources.

In particular, a number of authors have taken alternative theoretical perspectives to understand the distribution of revenue across firm stakeholders. Examples of applied theories to understand this distribution are: stakeholder theory (Coff, 1999), property rights theory (Kim & Mahoney, 2002; Foss & Foss, 2005; Kim & Mahoney, 2006), and cooperative game theory (Lippman & Rumelt, 2003).

### **5.4 The ‘open RBV’**

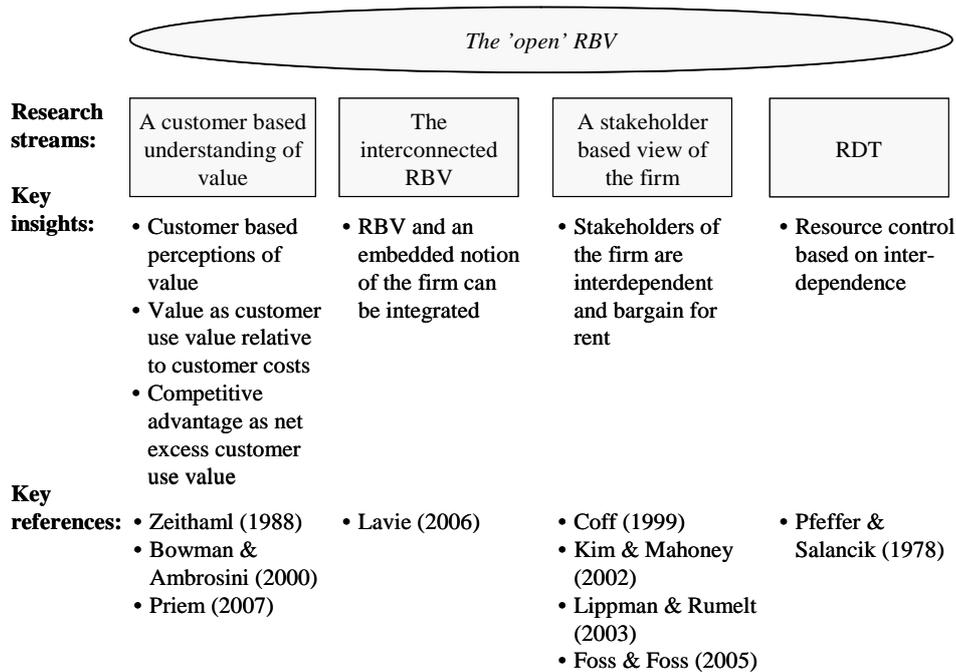
An ‘open’ firm perspective was recognized in organizational theory during the 1960s and 70s and referred to as an open system model (Katz & Kahn, 1966; Thompson, 1967; Pfeffer & Salancik, 1978; Scott, 1981). The developments within the RBV presented above seem to suggest that a similar perspective of the firm should be applied to the RBV. By building on one demand-side based perspective on competitive advantage and three resource based perspectives, the ‘open RBV’ is presented in the following. The four perspectives are presented in Figure 5-3 below.

First, the perspective builds on a definition of competitive advantage as dependent on customer perceptions, as presented in depth under the conceptualization of a competitive advantage. Secondly, the perspective assumes that firms are interconnected and embedded, and recognizes the importance of strategic resources that are only partially controlled by the firm. Thus, it builds on the interconnected RBV as presented by Lavie (2006). Thirdly, the ‘open’ RBV builds on the stakeholder based RBV, where the firm is assumed to consist of stakeholders that are interdependent and that bargain for interests. In this way, the ‘open’ RBV incorporates a notion of firms and their stakeholders as both interdependent and competitive. While differences in a firm’s orientation towards competition and co-operation might vary, the theoretical perspective proposed here

Part III: Theoretical development and conceptual model

acknowledges that firm and stakeholders do both – i.e. they compete as well as co-operate.

Figure 5-3: Overview of streams of research underlying the ‘open’ RBV



The move from a shareholder to a stakeholder based RBV that recognizes partially controlled firm resources does not only have implications for the distribution of revenue. It also impacts the concepts and arguments underlying the above proposed definition of what a competitive advantage is. Scholars building on the assumptions of the traditional RBV define a competitive advantage as the difference between perceived customer benefits and the economic cost of the firm as elaborated on above. Economic cost includes not only the firm’s actual costs, but also its opportunity costs. Thus, under the assumption of firm resource control, the gains from alternative uses of a given resource are incorporated as a cost in the economic cost and in this way it is incorporated into the definition of CA.

However, as the RBV is changed to acknowledge stakeholders and limitations in shareholder resource control, the opportunity cost of the firm might in many cases not be the most accurate measure of the risk of resource exit. Rather, the opportunity cost as perceived by stakeholders is relevant to

### Part III: Theoretical development and conceptual model

understand the risk of resource exit – and whether the resource based advantage is sustainable. These arguments suggest that that concept of economic cost give only limited insight beyond the actual cost of the resource to the organization. One option to solve this problem would be to incorporate all stakeholder alternative resource costs into the definition of a CA. However, rather than including the question of control as a cost, the ideas proposed above suggest that resource control be added as an important variable in understanding appropriation and sustainability of an advantage.

Rather than conceptualizing control as a dichotomous variable, as is done under the ‘unitary firm’ paradigm, there is a need to recognize the fact that stakeholder based firms can have partial firm resource control. An interesting starting point in developing such a conceptualization is the resource dependence theory (RDT) (Pfeffer & Salancik, 1978), which defines control in line with the open system model within organizational theory. While Hogan and Armstrong (2001) briefly build on the RDT to discuss the notion of business-to-business relationships as a resource within the RBV, the RBV and RDT have not been linked in past research to any significant degree.

The RDT views firm control as a function of the (inter)dependence of stakeholders. Dependence is defined as the situation where *‘one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the desired outcome from the action’*. (1978: 40). Thus, dependence can either be related to behavior or outcome. Dependence does not imply that an organization loses all power or control to the degree that it is dependent on others. To the extent that there is mutual dependence – interdependence – the asymmetry of the interdependence determines the control that an organization has. Thus, based on the reasoning from the RDT, control can be seen as the net dependence between actors, where the actor with less dependence is in control (Pfeffer & Salancik, 1978; Pfeffer, 1981).

Later researchers (Bacharach & Lawler, 1980; Kumar, Sheer & Steenkamp, 1995) have pointed out, however, that interdependence of a relationship should not only include the dependence asymmetry, but also the total interdependence. The total interdependence says something about the intensity of the relationship and the level of control that different stakeholders have relative to one another. In fact, marketing research on interorganizational relationships suggests that when total interdependence is high, both partners have high exit barriers (Geyskens, Steenkamp, Scheer & Kumar, 1996). The level of these exit barriers should be incorporated into the concept of firm control as interdependence.

Based on these arguments, the degree of firm resource control will be defined within the ‘open’ RBV as a function of interdependence asymmetry and the total amount of interdependence. Thus, rather than seeing firm resource control as a dichotomous and ‘empty’ construct, as traditionally done by authors within the RBV, resource control is viewed as a continuous concept ranging from low to high<sup>6</sup>.

While extensive space could be used to elaborate on the ‘open RBV, the intention of the presentation given here is to frame a conceptual point of departure. Thus, further elaboration of the perspective will be pursued elsewhere. A summary of the main ideas is presented below.

### 5.5 Summary and point of departure

To summarize the research perspective of ‘the open RBV’ a brief comparison of the perspective is presented in the following. A summary of this comparison can be found in Figure 5-4. While the level of analysis for the two perspectives is the same, the understanding of the concept of a firm is very different. Following the perspective of the shareholder, the unit of appropriation must be changed from the firm to its shareholders. However, by recognizing the stakeholder perspective of the firm, it seems possible to apply the unit of appropriation of the RBV to any stakeholder groups. Thus, the perspective is applicable to resource rents for any group of stakeholders. Finally, under the ‘open’ RBV, the notion of resource control must be changed from a dichotomous to a continuous construct.

Figure 5-4: The traditional versus the ‘open’ RBV

	The traditional RBV	The ‘open’ RBV
<i>Level of analysis</i>	<ul style="list-style-type: none"> <li>• Firm as:                             <ul style="list-style-type: none"> <li>• Atomistic</li> <li>• Unitary</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Firm as:                             <ul style="list-style-type: none"> <li>• Interconnected</li> <li>• Consisting of stakeholders</li> </ul> </li> </ul>
<i>Unit of analysis</i>	<ul style="list-style-type: none"> <li>• ‘Internal’ resources</li> </ul>	<ul style="list-style-type: none"> <li>• ‘Internal’ and ‘external’ resources available to the firm</li> </ul>
<i>Unit of appropriation</i>	<ul style="list-style-type: none"> <li>• The firm</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders</li> <li>• The particular chosen stakeholder group</li> </ul>
<i>Control</i>	<ul style="list-style-type: none"> <li>• Dichotomous</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous</li> </ul>
<i>Competitive advantage</i>	<ul style="list-style-type: none"> <li>• Depending on relative cost value added</li> </ul>	<ul style="list-style-type: none"> <li>• Depending on relative customer value added</li> </ul>

<sup>6</sup> For a more detailed conceptualization of degrees of partial resource control, please see Skjølsvik (2010).

### Part III: Theoretical development and conceptual model

Key characteristics of the 'open' RBV that mark a significant difference from the traditional RBV are the stakeholder orientation and the assumption of interconnectedness and embeddedness of firms. Also, the level of customer orientation is much more developed than in the traditional RBV. The 'open' RBV has a primary objective of developing extensive understanding of net customer value or resources – and not only focus on resource sustainability, which has been emphasized extensively within the traditional RBV.

While co-operation and competition traditionally have been seen as contradictory paradigms, an increasing number of authors are starting to recognize that companies need to have both to succeed (Brandenburger & Nalebuff, 1995; Brandenburger & Nalebuff, 1996; Brandenburger & Stuart, 1996; Lado, Boyd & Hanlon, 1997). While co-operation is essential to create gross value and enlarge the potential industry earning (PIE) of a firm, competition across firms and stakeholders determines who captures the value (Lou, 2005). This is also true for the value from resources. Key scholars within the RBV (Mahoney, 2001) point out that both co-operative and competitive perspectives should be included when looking at resource based sources of advantage. The 'open' RBV builds primarily on the competitive aspect and takes the firm perspective, but by recognizing the importance of partially firm controlled resources in the creation of firm advantages, the 'open' RBV also incorporates the co-operative point of view.

## Chapter 6: Conceptual model

The primary aim of this study is to add understanding to the theoretical starting points presented above and to develop insight rather than to test predictions. Still, it is important to develop an understanding of previous work done by other scholars. As a starting point and theoretical base line for the empirical study, a research model will be presented to illustrate the current position of the research field where I intend to make contributions.

Competitive advantage was defined above as net value, which consists of buyer net value (BNV) and supplier net value (SNV). Past research within the traditional RBV has focused primarily on the supplier perspective. Building on the 'open' rather than the traditional RBV, the research presented in the following aims to add to our understanding of the customer perspective on resource based advantages. As noted in Chapter 5, studying customer buying decisions is one way of identifying this perceived value. In the research presented here, the selection of professional service firms by clients is used as an indication of perceived buyer net value. A main objective is to identify the antecedents and sources of value perception, which can be traced to the selection criteria. These criteria represent the independent variables of client selection – the variables that determine why one company is selected over another. As mentioned above, seminal strategy scholars have suggested that studying buyer selection is a good way of understanding customer value (Bowman & Ambrosini, 2000) and competitive advantage (Porter, 1985).

In trying to find suitable conceptualizations of the research problem under study, relatively limited applicable research was found. Research into the dimensions of customer value of buyer-supplier relationships is still at an early stage and more work is needed (Walter et al., 2001; Flint et al., 2002; Menon et al., 2005; Ulaga & Eggert, 2006b; Ulaga & Eggert, 2006a). However, two contributions from marketing research offer very interesting starting points.

First, Menon et al. (2005) developed a model of customer value. These authors argue that customer value is determined by benefits and sacrifices. They screened literature to identify three sets of characteristics that are likely to impact the benefits: product characteristics, relational characteristics, and supplier characteristics. These authors look at value in an existing ongoing firm relationship. While the relationship definition in the research presented here is different from that suggested by Menon et al. (2005), the research model is highly comparable – as will be explained below. The relational characteristics will be elaborated on in the following. Secondly, Ulaga and

### Part III: Theoretical development and conceptual model

Eggert (2006b; 2006a) present an alternative model where they look at net customer relationship value as opposed to net customer value as the key dependent variable. These authors also suggest that customer relationship value is assumed to consist of relationship benefits and sacrifices. While these authors do not link customer relationship value to net customer value, this link has been proposed by Menon. By integrating these two perspectives, an expanded conceptual model is proposed.

The research presented in the following focuses on customer value. In particular, the focus is targeted at one antecedent of customer value: the client-professional relationship. The research aims to develop an in-depth understanding of the perceived client benefits and sacrifices of the relationship. In doing this, it is recognized that the customer relationship value is dependent on the fact that the relationship interacts with other identified net value antecedents.

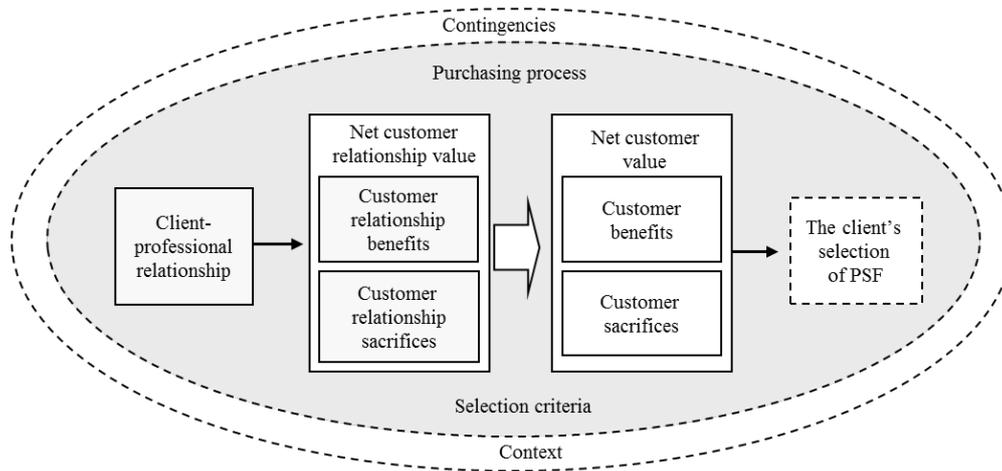
The research model that will be explored and detailed in the following consists of four key components:

1. The client's selection of PSF. This selection is defined as the outcome of superior net customer value. If one or more suppliers are selected by a client over other suppliers these firms are assumed to have a competitive advantage relative to those firms that were not selected. The client selection is the dependent variable in the study,
2. The client-consultant relationship, which is the key independent variable.
3. Benefits and sacrifices of the relationships, which are assumed to contribute to net customer relationship value.
4. Net customer value, which consists of the overall benefits and sacrifices that customers perceive.

Net customer value is assumed to impact the client's selection of PSF, and be influenced by net customer relationship value. In turn, the client-professional relationship is assumed to determine the net customer relationship value. The conceptual model that will be explored in the following research is presented in Figure 6-1.

The objective of the research is to develop in-depth understanding of client benefits and sacrifices of client-professional relationships. To develop an initial understanding of the influence of the relationships, existing research and literature within the different components of the conceptual model is presented. A key aim of the research, however, is to explore the area illustrated by the broad arrow in the middle of Figure 6-1. This has not previously been researched in detail in professional and knowledge intensive services.

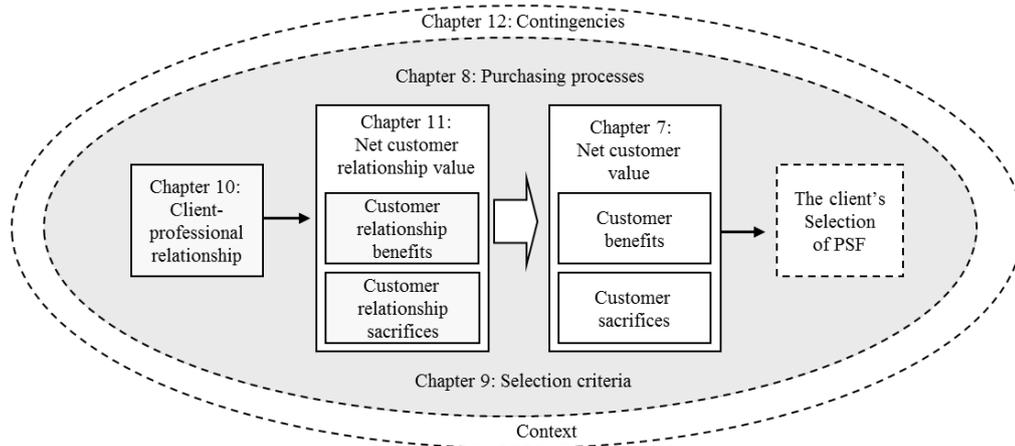
Figure 6-1: Conceptual model



The following research aims to take a contextualized and contingent approach. Thus, work that provides insight into the context is presented first. Specifically, an in-depth discussion of how value is created in professional services is included in Chapter 7. Chapter 8 then addresses past research on the nature of client purchasing processes. As the purchasing process is the key unit of analysis, an understanding of this process is essential to understand the selection by buyer firms. In Chapter 9, a review of existing research on client selection criteria is included to understand the relevance of client relationships as a source of customer net value and competitive advantage. Chapter 10 defines the client-professional relationship and Chapter 11 focuses on literature that provides indications regarding the benefits and sacrifices of relationships in professional services. Finally, Chapter 12 addresses the contingencies of the identified effects. An overview of the different sections is set out in Figure 6-2 on the next page.

Part III: Theoretical development and conceptual model

Figure 6-2: Overview of chapters dealing with the parts of the conceptual model



## **Chapter 7: Customer value in professional services**

### **7.1 Introduction**

Very limited research has been done on understanding net customer value, particularly in professional services. However, in developing an initial understanding of customer value, existing research on the value creation of PSFs gives some initial ideas about this construct. Specifically, looking at conceptualizations of how value is created in professional services offers an interesting starting point.

The nature of value creation in professional services suggests that it is essential to select the PSF with the best competence and ability to solve the types of problems that the client has (Stabell & Fjeldstad, 1998). In many cases, the alternative cost of choosing the wrong solution might be so substantial that the client is relatively insensitive to price. As pointed out above, research has shown that price is likely to be an insufficient mechanism in markets characterized by information asymmetry and uncertainty (Akerløf, 1970; Holmstrom, 1985; Nayyar, 1990, 1993; Skaggs & Snow, 2004; Armbrüster, 2006).

In fact, research on consulting shows that competition is not based primarily on either price or cost (Parasuraman & Zeithaml, 1983; Stock & Zinszer, 1987; Dawes et al., 1992a; Clark, 1995b; Page, 1998; Lindahl & Beyers, 1999; Glückler & Armbrüster, 2003), but rather focused on the benefits that are likely to be achieved. Scholars have referred to professional services as 'value sensitive services' (Stock & Zinszer, 1987). Thus, in developing an understanding of value creation, benefits seem particularly relevant.

That said, some studies of professional service selection among clients indicate that price is among the 4-6 most important selection criteria (Gaedeke & Tootelian, 1988; Page, 1998; Ellis & Watterson, 2001), which suggests that sacrifices are also relevant. Additionally, the increased knowledge among clients and presence of alternative suppliers with similar competence has heightened competition in professional services and is likely to make price a more relevant selection criterion. Therefore, developing a better understanding of how customer benefits, as well as sacrifices, impact the perception of net customer value seems timely, relevant, and important in order to develop further knowledge on the competitive advantage of PSFs. In the following, customer benefits are understood by looking at the value creation process of PSFs. In turn, a discussion of customer sacrifices is included. While scholars have pointed out that benefits and sacrifices might in fact correlate and interact, these two dimensions will be presented

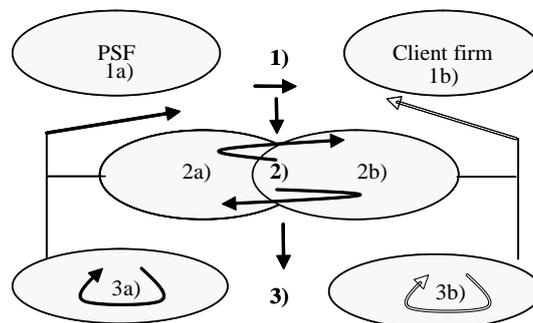
separately in the following, in line with work done by many researchers in the past (GrewalNY, Monroe & Krishnan, 1998; Sinha & DeSarbo, 1998; Menon et al., 2005).

## 7.2 Customer benefits of professional services

Value in professional services is created by solving customer problems (Stabell & Fjeldstad, 1998) through an iterative process of application of knowledge and professional conduct. The value creation process in professional services can be divided into three main phases (Løwendahl, 1992; Lapierre, 1997; Løwendahl, 1997): 1) ex ante – before a client assignment, 2) during an assignment and in PSF-client interaction, and 3) ex post, after the assignment is completed. These different phases correspond to the key components of consulting services identified by Gummesson (1977): (1) inputs, (2) operation of the assignment, and (3) output. These different phases are shown in Figure 7-1. The distinction across a) and b) processes in the figure reflects the degree to which value is assumed to be created for the PSF or the client.

Figure 7-1: Value creation processes in professional services

Source: Løwendahl (1997) and Lapierre (1997)



The research presented in the following focuses on value creation for the client in the first of these phases by looking at client selection processes, i.e. process 1b). While most emphasis will be placed on how value is created in this phase, one must assume that the evaluations that clients perform when they buy services do not neglect the later phases. Thus, the later phases seem highly relevant in order to understand buyer evaluations.

### 7.2.1 Ex ante value creation

From a PSF point of view, Løwendahl (1992) points out that the firm can create value before an actual client assignment is undertaken by creating a 'credible promise' of what they are able to deliver. By creating the promise

### Part III: Theoretical development and conceptual model

the clients are likely to perceive that the PSF is better than its competitors in its respective areas – and select that firm over the competitors. Thus, from a PSF point of view, value is created as their service gets selected by the client. While the development of such a ‘credible promise’ is essential in any industry, the nature of professional services – in particular in terms of the extensive information asymmetry between professionals and their clients – makes the ability to make such promises essential.

Clark (1993) in fact points out that if problems of information asymmetry are not overcome – based on the ability of firms to make such promises, a market is likely to collapse because companies are likely to internalize the services. Information asymmetry makes it difficult for clients to distinguish the quality of one company’s services (Nayyar, 1990, 1993) and resources (Skaggs & Snow, 2004) from another. PSFs are by nature characterized by an extensive degree of ambiguity, both relative to knowledge, expertise, and problem solving processes (Alvesson, 2001).

Building on research within informational economics (e.g. Nayyar, 1990; Clark, 1993, 1995b), Glückler and Armbrüster (2003) point out that the management consulting market is characterized by extensive institutional and transactional uncertainty, as well as information asymmetry. This is also likely to be the case for many other professional services. Relative to institutional uncertainty, Glückler and Armbrüster point out that in management consulting there is no professional organization or professional standards. Thus, there are no institutional clues to enable clients to separate qualified from non-qualified suppliers (Alvesson, 1993; Clark, 1995b). In terms of transactional uncertainty, the credence nature of many professional services does not allow for objective evaluation criteria (Mitchell, 1998), as discussed above.

From a buyer point of view it is difficult to know if the supplier will deliver what is promised (Edvardsson, 1990). Mitchell, Moutinho, & Lewis (2003) take the buyer point of view and study risk perception in the purchasing of professional services. These authors point to performance risk (e.g. Kaplan, Szybillo & Jacoby, 1974; Horton, 1976; Peter & Ryan, 1976) – which can be seen as the risk that the service will not perform as desired – as particularly important. As pointed out in the introduction, professional services are typically purchased to solve critical problems and involve considerable time and cost, which heightens the perceived risk of these services (Mitchell, 1994; Mitchell, 1998).

Due to the presence of information asymmetry, in many cases the client does not have a clear understanding of their own need (Edvardsson, 1990), and this makes them vulnerable. At the same time, buyers often have limited past

experience of purchasing professional services (Mitchell, 1994). This is caused by the fact that these services are often unique in nature and bought relatively infrequently and that people often move around in an organization so that they do not buy the same type of professional services repeatedly. Thus, most professional services are a new purchase for the individual buyer.

Value creation in professional services can be described as iterative problem solving, which requires changing from an existing non-preferred state to a more desired one (Simon, 1977; Stabell & Fjeldstad, 1998). The problem solving is assumed to require the use of an intensive technology<sup>7</sup> (Thompson, 1967) where expert resources work intensively together to attend to the needs of a client and solve a problem. Thus, as emphasized by the knowledge oriented research on professional services (Starbuck, 1992; Hargadon, 1998; Morris & Empson, 1998; Hansen et al., 1999; Sarvary, 1999; Løwendahl et al., 2001; Ofek & Sarvary, 2001; Fosstenlökken et al., 2003), one would expect client perception of the PSF's knowledge to be a key evaluation mechanism in the selection of professional services. However, it might often be difficult to see the link between the actual solution and the theoretical knowledge (Svensson, 1990; Alvesson, 2001) due to the need for problem solving and customization.

The value creation process of PSFs can be divided – as in any problem solving process – into different phases, including problem finding, problem solving, choice, execution and evaluation (Pounds, 1969; Simon, 1982; Stabell & Fjeldstad, 1998). These phases might take place at the same time, sequentially or reciprocally. While all of the phases are critical to the success of a chosen solution, the later phases are all dependent on the previous ones, making the problem finding phase the most critical. If one does not make the right diagnosis, define and decide to solve the right problem, solution selection becomes irrelevant. Much of the problem finding and diagnosis is often done by the PSF before the firm has been hired by the client and their suggested approach or solution represents what they are selling to the client. As a result, in addition to moral hazard and adverse selection problems, in professional services the risks related to finding the right problem and using the right solutions to solve that problem are substantial. In the ex ante value creation phase risk reduction and problem definition are important ways for PSFs to create value for clients.

### **7.2.2 Value creation during an assignment**

Extensive research has pointed to the essential role of customers in service production (Barnard, 1938; Lovelock & Young, 1979; Mills & Margulies,

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<sup>7</sup>In this context technology refers to the organizational configuration of tasks rather than information technology.

1980; Whitaker, 1980; Mills & Moberg, 1982; Mills, Chase & Margulies, 1983; Bowen, 1986; Mills & Morris, 1986). Additionally, researchers (McGivern, 1983; Mills & Moshavi, 1999) have emphasized the co-productive nature of professional services. In their participation, customers might not only need to give information, but also participate in the service production process (e.g. Mills & Moberg, 1982; Mills & Morris, 1986). Thus, it seems accurate to talk of joint problem-solving, where customer participation is likely to impact service quality (Kelley, Jr., H. & Skinner, 1990; Lengnick-Hall, 1996). Scholars in strategy have taken this concept further to point out that value co-production represents a way of creating value that is distinct from the tradition where customers are seen as consumers of value rather than contributors and value creators (Normann & Ramírez, 1993; Ramírez, 1999). This point of view is also represented in the new dominant logic of service marketing proposed by Vargo and Lusch (2004). Building on the importance of customer participation, scholars looking at knowledge intensive business service (KIBS) firms, which incorporate administrative professional services, also recognize the co-produced nature of these types of services, and the essential role of customers as co-producers (Bettencourt et al., 2002).

The co-produced nature of professional services is likely to impact the perception of task uncertainty (Morris & Empson, 1998). Even if bad quality could be established ex post, in most cases professional services are not reproducible (Clark, 1995a). Thus, while complaints can enable the buyer to have the service charge refunded, this has a relatively limited effect, as the real damage caused by bad service has already been done. The efficiency and effectiveness of client co-production is essential for value creation in professional services.

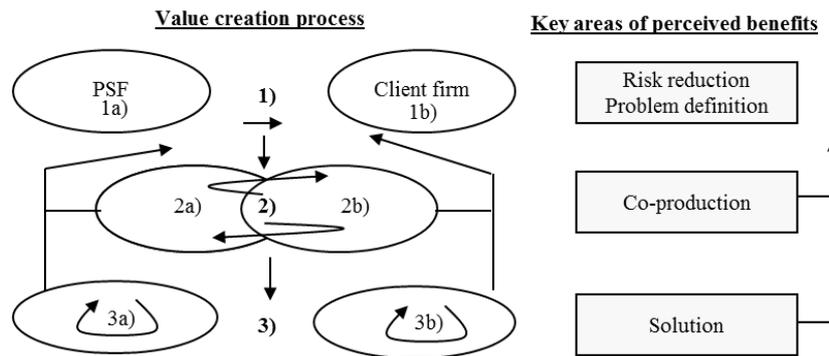
### **7.2.3 Ex post value creation**

LaPierre (1997) identifies four dimensions of 'value in use', which incorporate both selection and evaluation criteria and include both benefits and costs of the final solution delivered to the client. The identified dimensions are: (1) financial - in the form of for example cost reduction, increased revenue, profitability and rentability, (2) social - for example in the form of accident reduction, (3) operational - for example in the form of improved productivity and product development, and (4) strategic - in the form of better decision making.

While it might be possible to look in even more depth at the different benefits and costs of all possible customized solutions that professional service firms are likely to offer, the nature of many professional services as credence goods often makes the ex post evaluation of benefits and costs

related to the solution challenging. Thus, it often is very difficult to specify the solution ex ante – and evaluating the impact of that solution is often impossible. To the degree that a solution can be specified, buyers seem likely to evaluate the solution rather than the lagged and uncertain impacts of that solution.

Figure 7-2: Identified areas of key benefits in professional services



#### 7.2.4 Summary of customer benefits in professional services

The presentation of the three main value creation processes in professional services has provided interesting insight in terms of understanding key components of customer value of professional services. Ex ante, the uncertain and risky nature seems to suggest that risk reduction is a key benefit of high relevance to clients. In the delivery process, problem finding and co-production were identified as key value creating features. Ex post, the particular solution is likely to be a key benefit dimension evaluated by clients, to the degree that the solution can be specified. The link between the nature of value creation and the identified key components of customer value in professional services ex ante is presented in Figure 7-2 above. The vertical arrow at the far right of the figure illustrates the relevance of later phases for client firm selection.

#### 7.3 Customer sacrifices in professional services

Past research on net customer value has focused primarily on purchasing price to understand customer sacrifices (Wind, 1990; Butz & Goodstein, 1996; Ulaga & Chacour, 2001). However, scholars taking a broader perspective to understand customer sacrifices have pointed out that not only (1) price and (2) acquisition cost, but also (3) operation costs should be included (Ravald & Grönroos, 1996; Grönroos, 1997; Anderson & Narus, 1999; Dahlstrom & Nygaard, 1999; Lapierre, 2000; Menon et al., 2005).

Each of these sacrifices have also been identified as relevant in professional services (Lapierre, 2000) and will be addressed in the following.

### **7.3.1 Price**

Price refers to the monetary sacrifice that the buyer needs to make to purchase a product or service at the time of purchase (Zeithaml, 1988; Day, 1990; Monroe, 1990). As pointed out above, price does not seem to be an adequate mechanism to overcome the information asymmetry problem and seems to have relatively limited importance in professional services. While price might be relevant for signaling quality (Spence, 1973) and status (Uzzi & Lancaster, 2004) from the PSF point of view, past research on client selection at the same time seems to suggest that price represents a relevant dimension of customer value.

In addition to the price level, past research suggests that contingent fees might be one way of overcoming information problems (Holmstrom, 1985; Clark, 1993). These types of fees are likely to involve incentives and ensure attentiveness, signal competence and reduce the perceived danger of moral hazard and adverse selection. Thus, there is a likeliness that type of price is considered by clients to be a source of net value.

### **7.3.2 Acquisition cost**

Acquisition cost typically refers to the cost of acquiring and storing products (Cannon & Homburg, 2001; Menon et al., 2005). In the case of services where there is no physical product to store, these types of costs might seem a little more difficult to specify. However, relevant costs in services that are characterized as acquisition costs include search costs (Dawes, Dowling & Patterson, 1991; 1993), monitoring cost related to the performance of the supplier and the cost related to co-ordination and communicating with the supplier in the purchasing process (Ellram, 1990, 1996; Cannon & Homburg, 2001; Menon et al., 2005). Thus, transaction and ex post governance costs are included in the notion of acquisition costs. These costs are highly relevant for services.

### **7.3.3 Operation cost**

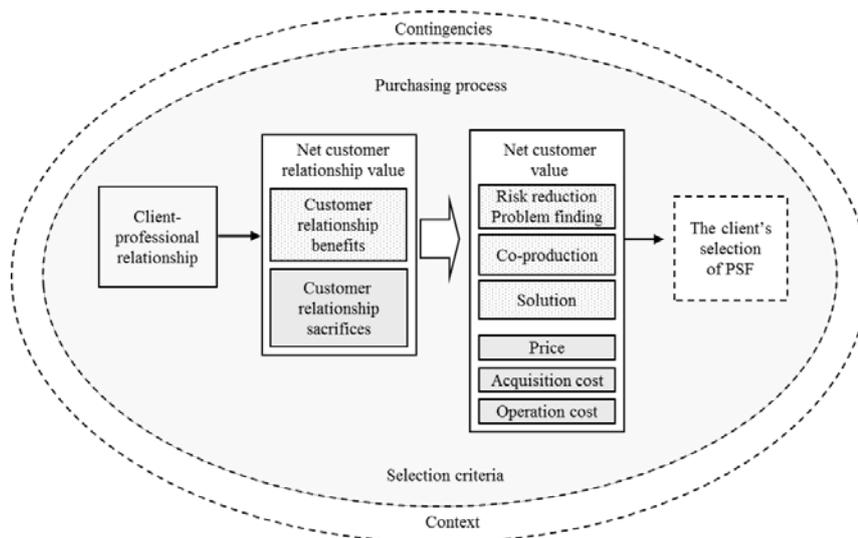
Operation cost is the cost inherent in the buyer firm's primary business (Cannon & Homburg, 2001; Menon et al., 2005). It therefore corresponds to the benefits identified in the ex post value creation process. As pointed out above relative to benefits and cost of the solution, it seems questionable whether it is possible to determine operation costs ex ante in the case of professional services, due to the credence and customized nature of value creation. These types of costs are also likely to be highly differentiated across firms. Therefore, considering all dimensions of these types of costs in

detail does not seem to be a particularly valuable avenue to explore further in this study. Examples of these could be manufacturing costs, research and development costs, and internal co-ordination costs. While their relevance for ex ante customer evaluation might be questionable, they will be included in the conceptual base line model.

#### 7.4 Summary and point of departure

Based on the presentation of the relevant dimensions of ex ante customer value in professional services, the overall conceptual model presented in Chapter 6 can be revised. The new model is presented in Figure 7-3. While this model has been developed from existing research on net customer value of professional services, more related research will be presented in the following that adds further insight into the net value. In particular, buyer purchasing processes and selection criteria give an interesting starting point to understand how and what buyers value in selecting among of providers of professional services.

*Figure 7-3 Revised conceptual model*



## Chapter 8: Client purchasing processes

### 8.1. Introduction

Two principal approaches have been taken in understanding client purchasing processes for professional services. One approach has been to focus on developing an in-depth understanding of a generic process that applies to all types of professional services under all circumstances. The alternative approach has been to develop a generic set of purchasing processes that apply depending on different contingencies. Both approaches are discussed in the following.

### 8.2 One generic process

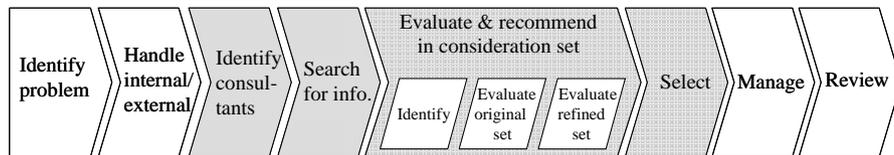
Buying processes<sup>8</sup> in general and in particular related to professional services, have primarily been studied based on the assumption that one generic decision making process exists that is applied in all decisions (Stock & Zinszer, 1987; Day & Barksdale, 1994; Mitchell, 1994; Bunn et al., 2001). By building on past studies of industrial buying processes (i.e. Robinson et al., 1967; Webster, 1969; Saleh, 1970; Stock, 1975), Stock and Zinszer (1987) were among the first scholars to take a 'one process' approach. These scholars proposed that the purchasing process for these types of services consists of the following steps: (1) identify existing problem; (2) determine if the problem is to be handled internally or externally; (3) identify possible consultants; (4) conduct search for information about consultants; (5) evaluate and recommend consultants; (6) select consultant; (7) manage project; and (8) review or evaluate consultant performance.

Later scholars who have attempted to conceptualize the selection process related to professional services (Day & Barksdale, 1994) have pointed out that the process proposed by Stock and Zinszer is too simplistic in terms of the evaluation in step (5). In particular, they believe that the evaluation should include: (a) the identification of the initial consideration set; (b) the refinement of the consideration set; and (c) the evaluation of the refined consideration set. In the process of selecting a supplier, a prequalification is often used to limit the number of firms that are fully evaluated. In turn, the buyer typically looks for reasons to disqualify the firm. This revised process is shown in Figure 8-1.

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<sup>8</sup> The perspective that will be taken in the following is that the client buying decision related to professional services represents a subset of organizational decision making (Webster & Wind, 1972; Sheth, 1973; Grønhaug, 1975).

Figure 8-1: Overview of the purchasing process



Neither Stock and Zinszer (1987) nor Day and Barksdale (1994) used in-depth empirical evidence to look at the empirical validity and content of their acclaimed selection processes. In fact, limited empirical research has been done to look in detail at the actual steps of the selection process related to professional services. The research presented in the following aims to fill this gap.

Specifically, the following study aims to understand why a particular supplier is selected for a given professional service when the buyer firm has decided to hire a PSF rather than do the project themselves. Thus, the study will focus on selection process steps (3) to (6) as illustrated by gray shading in Figure 8-1. Steps (1) and (2) – which deal with the need for professional services in terms of problem identification and whether the problem should be handled internally or externally – will not be a primary focus of the study.

However, singling out certain steps of a process is not as uncomplicated as it might seem. Past empirical research in fact suggests that in reality the process is not sequential, as proposed above, but rather must be seen as cyclical and iterative (Roodhooft & Van den Abbeele, 2006; Werr & Perner, 2007). There is likely to be considerable interaction between the different steps. Problem identification, for example, is likely to precede the later steps of the process and understanding the actual need is a precondition for selection. Thus, while focusing on selection, the other steps of the process are included and discussed to the degree that they impact the selection. For example, problem identification and client needs will be treated as a contingency factor to understand client selection of PSF.

When it comes to the selection phase, the main topic dealt with by most authors concerns the selection criteria used by the buyers (Mitchell, 1994; Roodhooft & Van den Abbeele, 2006; Werr & Perner, 2007), as opposed to how the process takes place. The criteria will be treated in depth in a separate section and used as a background to understanding the impact of relationships.

### **8.3 Multiple purchasing processes**

The above proposed model of professional service purchasing takes a sequential, rational, and primarily transactional approach. An alternative perspective on professional service purchasing has been proposed by Edvardsson (1990). His point is that buyers of professional services only relate to the known part of the PSF market. In turn, only a limited number of the known suppliers are relevant for the task. Of those suppliers, Edvardsson suggests that only those suppliers that have been used regularly by the buyer will be selected. In particular, his point is that the intangible nature of professional services makes it difficult to know – even after a service is delivered – if you have chosen the best professional service available. As a result, buyers just aim for a consultant that is good enough in terms of being suitable and acceptable among those suppliers already used by the firm. Thus, Edvardsson suggests that the choice is made based on relationships and past experience rather than on a ‘rational’ decision process as proposed above.

The ideas proposed by Edvardsson suggest that a differentiation could and should be made between (1) a transactional and rational approach and (2) a relational and experience based approach to the selection of PSFs. Such a differentiated approach has not been applied to the purchasing process of professional services, but can be found relative to purchasing processes in general (Axelsson & Wynstra, 2002). The separation across a transactional and relational approach can be found across different strategies that buyers use (Baker & Faulkner, 1991) and different types of buyers (i.e. Sharma, 1994). While Axelsson and Wynstra (2002) seem to suggest that the transactional and relational approaches to purchasing represent different paradigms, the research presented in the following takes a more nuanced approach and suggests that the use of the different approaches should instead be based on the presence of particular contingencies.

Past research (Baker & Faulkner, 1991) suggests that alternative strategies used by clients in the process of buying professional services are: (1) relational, (2) transactional, (3) fractional, and (4) serial. A relational strategy refers to a situation where the buyer primarily uses one PSF for a category of professional services such as law services, investment banking services or management consulting services. This strategy is very different from a transactional strategy, where all professional services are selected among available suppliers and where price is an important selection criterion. In between these extreme strategies, suppliers could also use fractional and serial strategies. Fractional strategies reflect situations where a supplier is selected for a particular type of service and used repeatedly for

### Part III: Theoretical development and conceptual model

these types of services. A serial strategy is where the firm decides to use one consulting firm for all its management consulting needs at a particular time, and change supplier the next time similar needs arise.

In terms of different types of buyers of professional services, empirical research has suggested that a distinction can be made between buyers who focus on piecemeal buying – which reflects those that look for suppliers to fill very particular needs in particular projects – and those that focus on buying projects or full solutions to existing problems (Sharma, 1994). The former types of buyers are likely to be much more experienced and knowledgeable than the latter. A distinction can also be made between those that focus primarily on price – which typically are inexperienced buyers – and those that focus on quality. By combining the two dimensions, four categories of buyers have been identified: (a) the bargainer, (b) the confused, (c) the loyal, and (d) the competent. The different buyers can be found in Figure 8-2.

Both the bargainer and the confused are price oriented. However, the bargainer buys professional services on a piecemeal basis and has an in-depth understanding of what is needed. The confused buyer, however, does not know what the company is looking for. As he lacks the ability to evaluate PSFs, the confused buyer emphasizes price as important.

*Figure 8-2: Types of buyers of professional services  
Source: Sharma (1994)*

	Price	Quality
Piecemeal	The bargainer	The loyal
Project	The confused	The competent

The loyal and the competent buyers both focus on quality rather than price as a key criterion for supplier selection. As a result of buyer satisfaction from past business interaction, the loyal buyer relies on their existing supplier relationships for particular types of professional services. Conversely, the competent buyer organization acknowledges the importance of quality in purchasing professional services, and relies on its network of relationships to find quality where it lacks market knowledge (Czepiel, 1990). Thus, both categories of quality oriented buyers rely on relational ways of selecting a supplier. While the loyal buyer stays with the same firm, the competent buyer uses his networked relationships to find superior suppliers.

### Part III: Theoretical development and conceptual model

Past literature has portrayed clients as helpless victims of consultants and other externally hired professionals (Clark, 1995b; Clark & Salaman, 1996; Sturdy, 1997; Alvesson & Johansson, 2002; Clark & Fincham, 2002). However, more recent research suggests that clients are becoming increasingly professional when it comes to how they purchase and use professional services (Gaedeke & Tootelian, 1988; Niewiem & Richter, 2004; Mohe, 2005; Perner & Werr, 2009). While these studies were done in particular industries, e.g. management consulting and law, there is reason to assume that the same development also takes place relative to other professional service industries. One important trend is that clients are involving purchasing professionals in these types of decisions to an increasing degree both in the public (Schiele, 2005; Roodhooft & Van den Abbeele, 2006; Schiele & McCue, 2006) and private sector (Werr & Perner, 2007). In turn, the purchasing professionals are likely to contribute to increased formalization (Carter & Carter, 1998; Pettijohn & Qiao, 2000; Schiele & McCue, 2006), where formalization ranges from the introduction of procedures, policies, and guidelines to functional centralization (Perner & Werr, 2009). Thus, the involvement is likely to impact how professional services are purchased. However, there is still – at least in the public sector – a large variation in the level of professionalization (Roodhooft & Van den Abbeele, 2006) and the purchasing processes used.

This variation in the professionalization of processes was described nicely by Werr and Perner (2007), who differentiate processes based on the level of centralization. Building on the categorization of purchasing function involvement proposed by Van Weele (2005) and based on the in-depth consideration of six case studies, Werr and Perner (2007) identified three types of purchasing processes: (i) the decentralized, (ii) the co-ordinated decentralized, and (iii) the centralized. The decentralized approach was characterized by limited influence by the purchasing department. In the co-ordinated decentralized approach, purchasing had taken steps to make contracts with preferred suppliers and had therefore limited the organization's choice. Procedures and templates on how to select consultants were also developed. In the centralized approach, the purchasing department was heavily involved as they were highly knowledgeable of the relevant industry and the company's need. Rather than relying on procedures, purchasing had extensive understanding of the value potential of the different suppliers. According to Werr and Perner, in decentralized processes suppliers are selected primarily based on personal relationships. In the case of co-ordinated decentralization, parallel firm agreements are established and the existing supplier base often persists over time. In the case of centralized processes, however, the firms seem to take a transactional approach.

### 8.4 Summary and point of departure

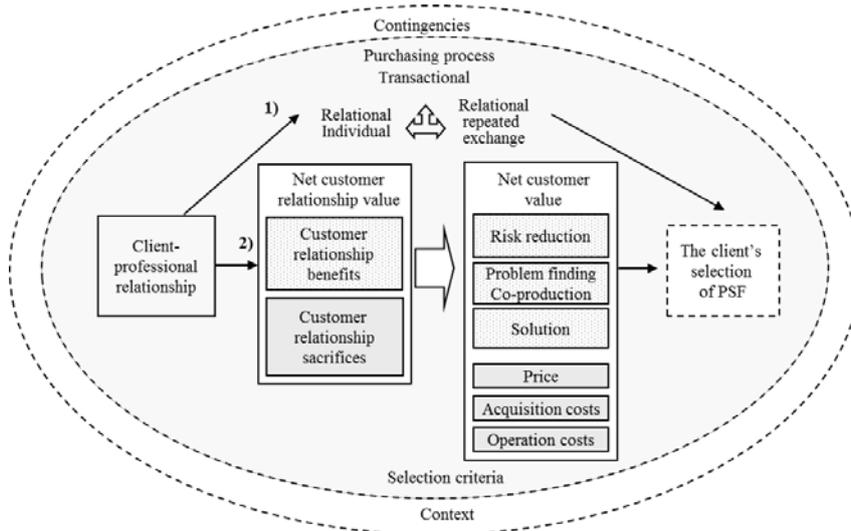
The above demonstrates that although they have very different starting points, there are extensive similarities in terms of the categorizations proposed by Sharma (1994) and Werr and Perner (2007). In particular, three main types of purchasing processes can be identified if one focuses on the transaction-relationship dimension:

- a) Transactional processes where price or buyer cost is a key selection criterion.
- b) Firm oriented relational approach, where past satisfaction implies that the buyer firm repeatedly uses the same supplier over time.
- c) Individual oriented relational approach where the buyer selects PSFs by using individual relationships directly or indirectly as reference points.

These different processes have been incorporated into the conceptual model in Figure 8-3.

The literature presented above suggests that relationships impact selection on at least two levels. In addition to the direct effect that relationships might have on selection across multiple sellers in competitive processes, the relationship was also identified to impact the process itself – in that a competition might never take place. These two different paths through which relationships are likely to have an impact on the client’s selection of PSFs are included in Figure 8-3. Path 1 reflects the impact that relationships might have in terms of the type of purchasing process used by clients. Path 2 concerns the impact that relationships have where a competitive process is in place and more suppliers are invited to compete.

Figure 8-3: Revised conceptual model with purchasing process



## **Chapter 9: Client selection criteria**

### **9.1 Introduction**

To further understand the relevance of relationships as a selection criterion for the path noted as 1) in Figure 8-3, it is necessary to understand buyer criteria. Past scholars studying professional service purchasing have pointed out that these criteria are essential to understand the goals and needs of the buyer organization (Kotler & Bloom, 1984; Day & Barksdale, 1994). In the public sector, public tendering legislation requires that buyer criteria are made explicit so that suppliers know exactly what they are being evaluated on and are competing on. However, recent research shows that firms in both the private and public sectors make a relatively thorough consideration of selection criteria (Roodhooft & Van den Abbeele, 2006).

Understanding client selection criteria is not only essential from the buyer's point of view. For the supplier, the criteria represent essential dimensions of competition and antecedents of net customer value, which allow identification of potential sources of competitive advantage. However, competitive advantages are only likely to occur to the degree that suppliers are different in terms of their ability to meet the criteria (Day & Barksdale, 2003). Thus, understanding these criteria offers important insights into sources of net customer value beyond the relationships. Identifying these alternative sources of advantage is essential to develop a contingent and contextual understanding of net customer relationship value.

### **9.2 Review of existing research on client selection criteria**

A number of scholars have studied the selection criteria used by clients when buying professional services. An overview of empirical studies focusing on this area is set out in Table 9-1. These studies are relatively old, have primarily been carried out by practitioners and most of them focus on comparing criteria rather than understanding them. Very few studies build on in-depth research in their identification of selection criteria. While some scholars include an initial phase that incorporates interviews with buyers (e.g. Dawes et al., 1992a), the concepts are not very well developed to capture the essence of the different dimensions of the selection criteria and how they are used by buyers. This lack of a foundation of qualitative conceptual research has resulted in the use of different terminology for relatively similar criteria across studies, and a rather arbitrary selection of these criteria. Moreover, definitions of and details regarding the actual content of the criteria are often missing. Some scholars even mix selection criteria with the needs (Lynn, 1986; Scott & van der Walt, 1995) and criteria used for evaluation (Gaedeke & Tootelian, 1988). These weaknesses in the existing research have been pointed out by past scholars (Day & Barksdale,

Part III: Theoretical development and conceptual model

1994) and show a clear need for new, in depth studies that will further develop the concepts of different selection criteria.

*Table 9-1: Overview of studies on selection criteria of administrative professional services*

<b>Author (s)</b>	<b>Year</b>	<b>Short</b>	<b>Journal</b>	<b>Industry</b>	<b>Method</b>	<b>Data used</b>
Gustafson & DiMarco	1973	<b>GD</b>	Academy of Management Review	Various consultants (VC)	Quantitative	71/55 Managers client firms
Axline	1984	<b>A</b>	Journal of Accountancy	CPA	Qualitative & Quantitative	108 clients of a major CPA firm
Cagley & Roberts	1984	<b>CR</b>	Journal of Advertising Research	Advertising (A)	Quantitative	69 Advertising managers
Lynn	1986	<b>L</b>	Industrial Marketing Management	CPA	Quantitative	321 CEOs, CFOs & controllers
Gaedeke & Tootelian	1988	<b>GT</b>	Journal of Professional Services Marketing	Law (L)	Quantitative	63 Executives & 72 lawyers
Dawes, Dowling, & Patterson	1992	<b>DDP</b>	Industrial Marketing Management	Management consulting (MC)	Qualitative & Quantitative	253 clients (Managers)
Clark	1993	<b>C</b>	British Journal of Management	Recruiting (R)	Quantitative	53 Client firms search. Selection also surveyed
Poulfelt & Payne	1994	<b>PP</b>	Scandinavian Journal of Management	MC	Quantitative	90 CEOs in private and public sectors
Scott & van der Welt	1995	<b>SW</b>	European Journal of Marketing	Accounting Ac	Qualitative & Quantitative	151 general manager/chief executive of client firms
Page	1998	<b>Pa</b>	Journal of Management Consulting	MC	Quantitative	NA
Corcoran & McLean	1998	<b>CM</b>	International Journal of Public Sector Management	MC	Qualitative	Interviews: 12 purchasing departments across 2 geographies

Part III: Theoretical development and conceptual model

Author (s)	Year	Short	Journal	Industry	Method	Data used
Ellis & Watterson	2001	<b>EW</b>	The Service Industries Journal	L	Qualitative & Quantitative	Interviews/ survey 32 Organizations (also consumers)
Na, Marshall & Son	2003	<b>NMS</b>	Journal of Advertising Research	A	Quantitative	289 individuals in 75 firms; 43 market (M) / 32 non-market (NM) firms
Day & Barksdale	2003	<b>DB03</b>	Journal of business and industrial marketing	M	Qualitative	147 Representatives, client contacts, marketing professionals
Speckbacher, Wratschko & Wolfbauer	2004	<b>SWW</b>	Research report	MC	Qualitative and Quantitative	85 client representatives (managers) Phase a (pre-selection) & b (final selection)

### 9.3 Typology of selection criteria as potential sources of CA

While past research is infused with a number of weaknesses, insight can be gained from combining the criteria used across studies. This can be used as a starting point in the quest for an enriched understanding of what really matters for buyers – and sellers – of professional services. Below, existing studies on selection criteria have been used to create an overview of identified groups of criteria, criteria, and sub-level criteria. The underlined abbreviations denote the type of industry. The abbreviations that are not underlined refer to the authors of relevant articles where a given criterion was found. The number following the author abbreviations denote the rank of the criterion in the particular study. An overview of all abbreviations can be found in Table 9-1.

By categorizing all the criteria proposed by scholars studying selection criteria within administrative professional services, four main types of selection criteria can be identified: (a) input based criteria that relate to the input used to create the service, in the form of knowledge, people and firm characteristics, (b) service based characteristics that concern the service content, the client service in terms of pro-activity and professionalism and how the service is presented to the client, (c) relational selection criteria that relate to general and networked reputation, which can be defined as the

feedback from the embedded nature of markets that allow for feedback from own and others experience, and finally (d) the economics of the service. The details of each of these different categories can be found in Figures 9-1, 9-2, and 9-3.

As past research that has been done on selection criteria has focused primarily on quantitative measures rather than developing a qualitative understanding of these criteria, the explanations of the different criteria and why some criteria were include and others not - are very limited. However, by integrating criteria selected in the quantitative studies an initial overview of relevant dimensions is presented in Figures 9-1, 9-2 and 9-3. Due to the lack of criteria descriptions in the quantitative research, the comments offered in the following will be restricted to the use of relational criteria in general and on the client-consultant relationships in particular. All the mentioned relational selection criteria can function as sources of information, but are also used as selection criteria by clients (Stock et al., 1987). While information sources used to select professional services and the selection criteria should be understood separately (Gustafson et al., 1973; Stock et al., 1987), the sources and the criteria often overlap significantly and are mixed in existing studies (Edvardsson, 1990).

#### **9.4 Client-professional relationships as a selection criterion**

From past research, five different dimensions can be identified that will be referred to under relationship based selection criteria: direct past experience, PSFs client knowledge, chemistry, fit, and interaction. Studies from different industries seem to include these dimensions to a varying degree, but as the nature of the relationship across industries is likely to share a number of similarities, there might be opportunities for application across industries in future studies.

A number of authors point to past experience as important in the selection of a PSF (e.g. Lynn, 1986; Dawes et al., 1992a; Clark, 1995a; Page, 1998). Different studies, however, vary in terms of whether they emphasize the experience of the individual or the firm (Dawes et al., 1992a; Page, 1998). In addition to past experience, the client's knowledge of the PSF and particular people within that firm was pointed out as an important criterion. Both the direct past experience and the client's knowledge of the PSF reflects dimensions that result from repeated exchange over time.

Figure 9-1: Overview of input based selection criteria

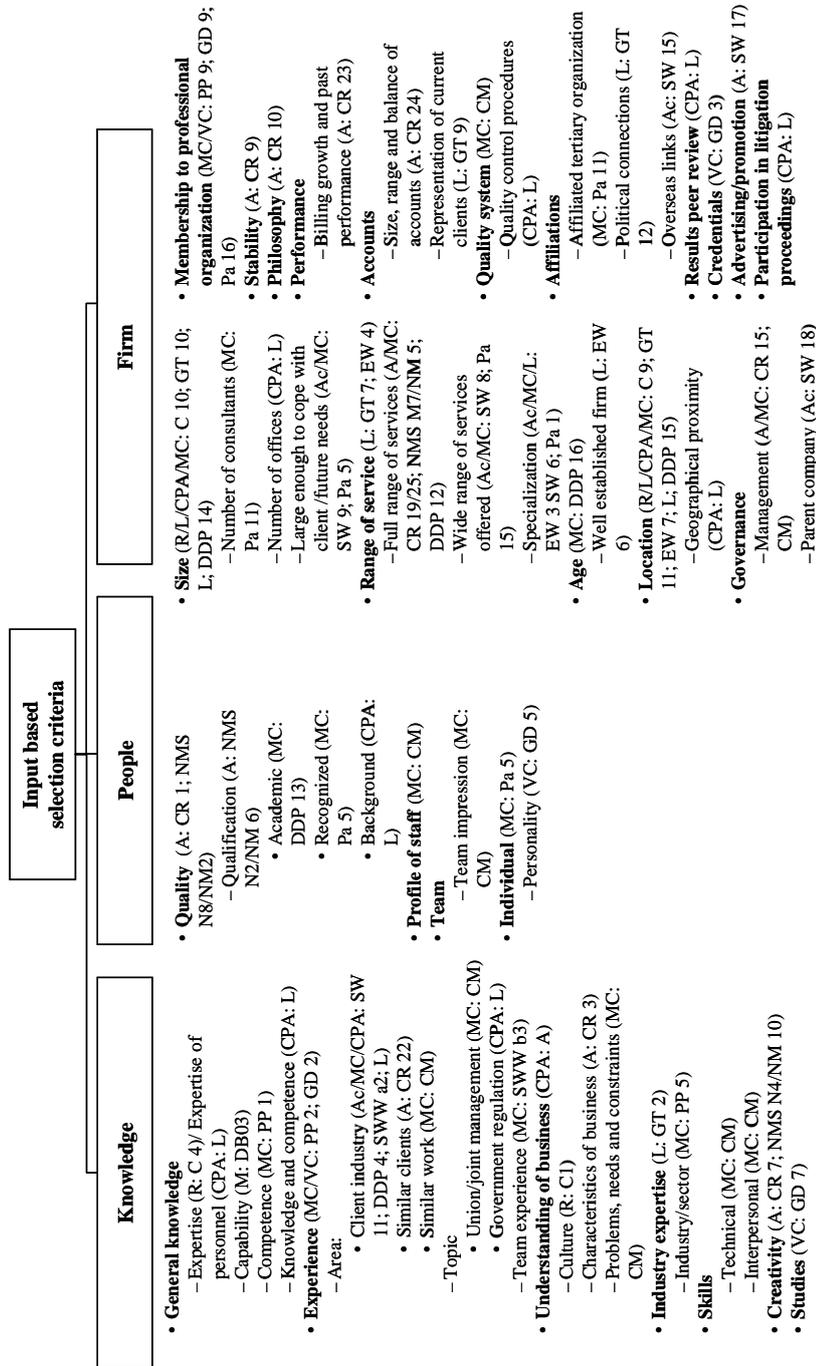


Figure 9-2: Overview of service based and economic selection criteria

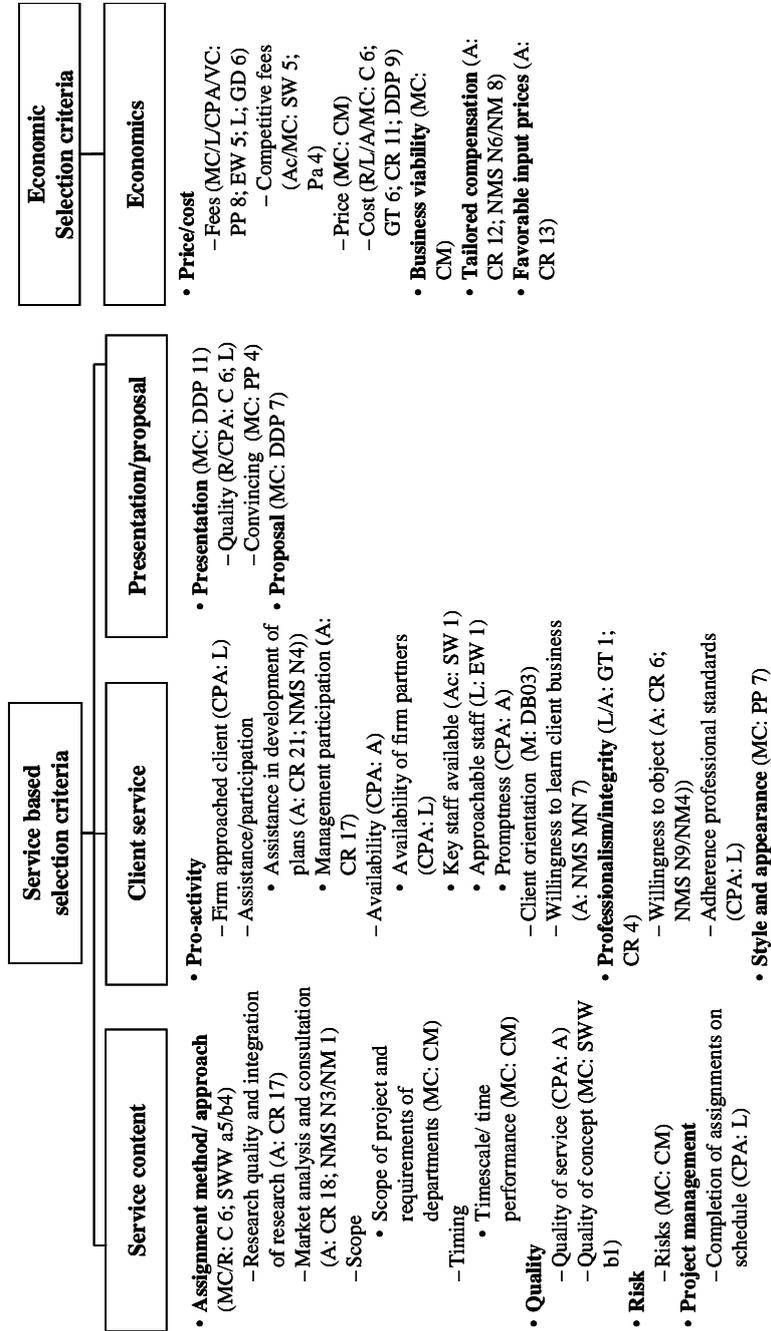
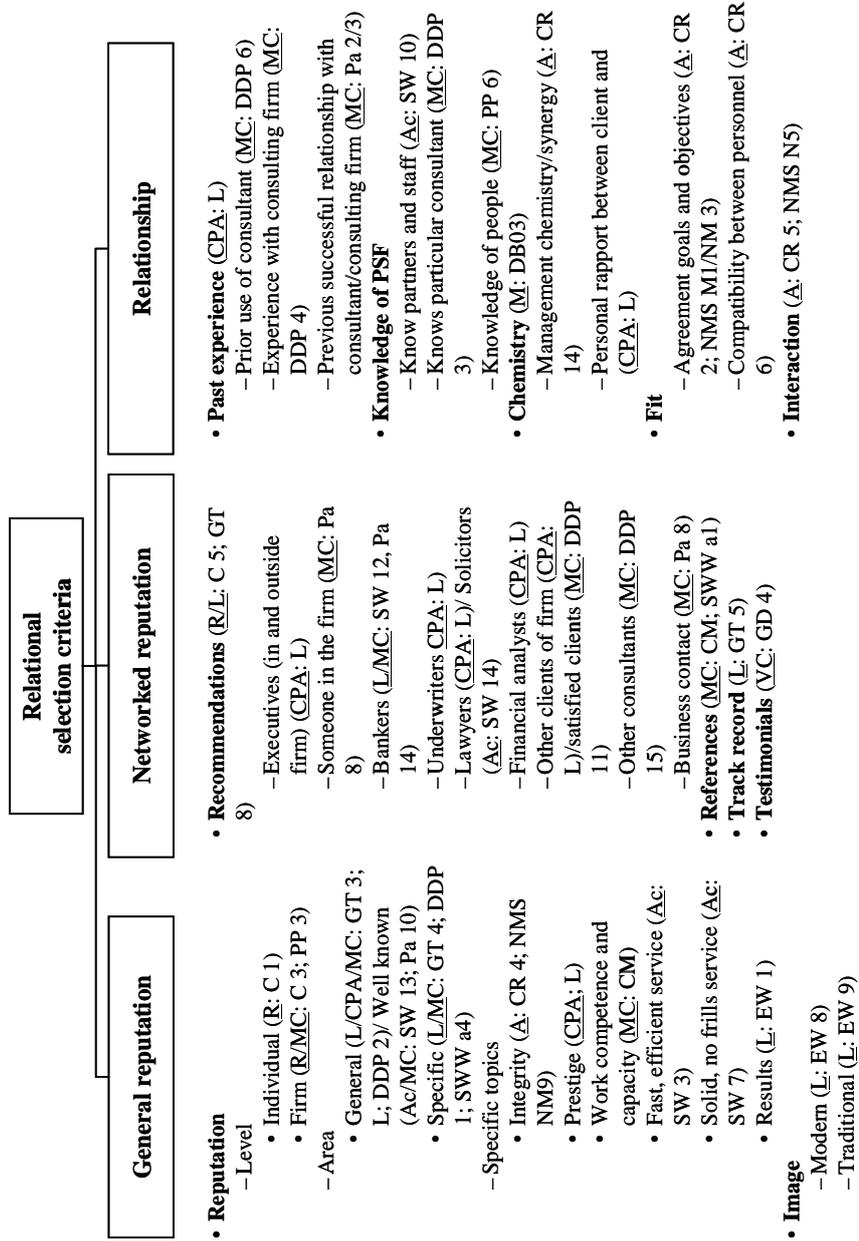


Figure 9-3: Overview of relational selection criteria



Conversely to these ‘historically’ oriented criteria, the personal “chemistry”, fit, and interaction dimensions concern how the client and consultant relate to one another throughout the purchasing process. This is not related primarily to past success and satisfaction, but rather concerns the likes and dislikes that embed any relationship. While these dimensions of the relationship are recognized, they have not been studied in detail in past research. One exception is Day and Barksdale (2003), who differentiate chemistry at the individual and the firm level. Moreover, past studies of the selection of management consulting firms have pointed out that the chemistry must work for the consultancy to be hired (Spreckbacher et al., 2004). Thus, it represents a necessary condition.

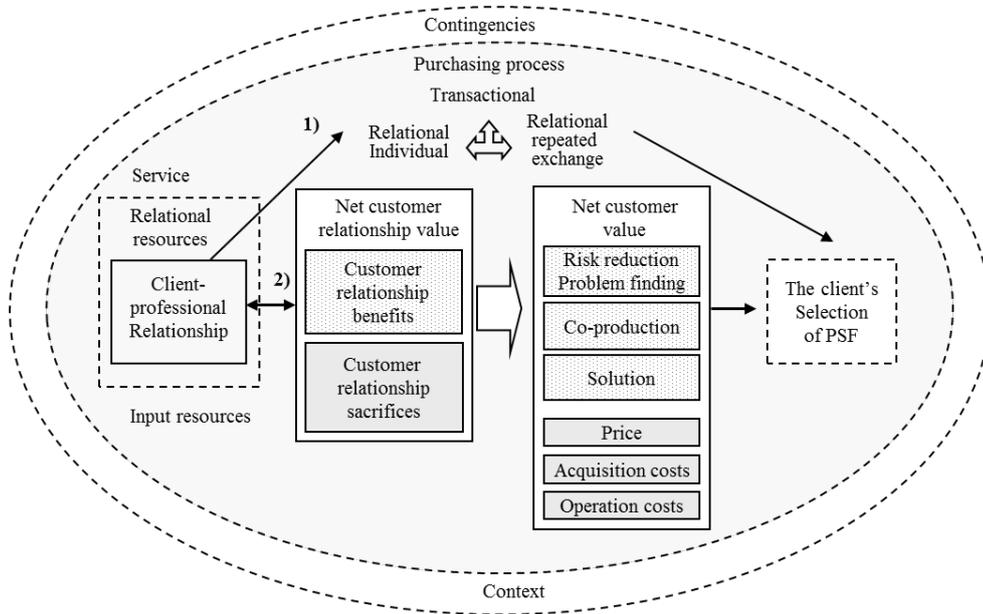
Organizational fit, in terms of similarities in goals and objectives, and compatibility between personnel (Cagley & Roberts, 1984; Na et al., 2003) are primarily considered to be important in the advertising sector. However, past research within auditing also shows that client firms seek to find auditors that parallel their own organizational structure (Newton & Ashton, 1989).

### **9.5 Summary and point of departure**

The above presented overview shows the alternative criteria customers value in determining which supplier to select. In particular, it shows how clients evaluate the resources of the firm directly in addition to the services the resources are applied to render. It also shows how customers value resources that are firm controlled as well as those that individually controlled – suggesting that both these types of resources are direct requirements for competitive advantage.

In the following, the selection criteria presented above are considered as alternative independent variables that may explain the client selection of PSFs. In Figure 9-1, the resources and services emphasized as selection criteria are included as alternative independent variables. In particular, the relevance of interaction effects across these other criteria and the relationship will be considered. As relationships can be seen as relational resources and the substitution effect of relationships relative to other relational resources is likely to be particularly important, this category of resources will be given the most attention in this study – as illustrated by the dotted square in Figure 9-4.

Figure 9-4: Revised conceptual model including selection criteria



## **Chapter 10: The client-professional relationship**

### **10.1 Introduction**

The importance of business relationships is well established in research (e.g. Cunningham & Turnbull, 1982; Håkansson, 1982; Berry, 1983; Crosby & Stephens, 1987; Dwyer et al., 1987; CzepielNY, 1990; Heide & John, 1990; Fichman & Levinthal, 1991; Ganesan, 1994; Buttle, 1996; Dyer, 1996; Hunt, 1997a; Dyer & Singh, 1998). Nevertheless, there is a lack of concise definitions of the concept of a relationship (Halinen, 1997; Veloutsou, 2007) and many authors show limited insight into what a relationship actually is (O'Malley, 1999; Egan, 2008). Past research has relied heavily on borrowed relationship analogies from the interpersonal relationship sphere (Levitt, 1983; Dwyer et al., 1987; Buttle, 1996; Tynan, 1997; Stoltman & Morgan, 2002). The same analogy has also been used in studies looking at the dynamics of interorganizational relationships within the context of professional services (Levinthal & Fichman, 1988b; Fichman & Levinthal, 1991). While the use of analogies shows the relevance of relationships, they also imply that clear definitions are being avoided.

The following chapter aims to contribute to the development of an understanding of the notion of a business relationship by defining and conceptualizing the concept of a 'client-consultant relationship'. First, literature on business relationships in general will be considered. Existing research specifically concerning the client-consultant relationship will then be addressed to develop an understanding of the concept in the relevant setting. Based on these different traditions, a relationship definition and conceptualization will be proposed.

### **10.2 Understanding business relationships**

While there seems to be a lack of concise and clear definitions of business relationships, the number of proposed conceptualizations and dimensions of relationships is overwhelming. In particular, two main approaches have been taken: business relationships as repeated exchange or repeated transactions (10.2.1) and business relationships as an interorganizational and individual level construct involving social connections (10.2.2). These perspectives are addressed in the following.

#### **10.2.1 Business relationships as repeated exchange**

A key theoretical pillar within research on business relationships is social exchange theory (Homans, 1958; Thibaut & Kelley, 1959; Gouldner, 1960; Levine & White, 1961; Emerson, 1962; Blau, 1964), in which individuals are seen as rational actors deciding how best to access the resources they need. Repeated exchange is used where it is assumed to be the most efficient

way to access required resources. This perspective forms a key foundation for understanding much of the research on interorganizational relationships (Hall, Clark, Giordano, Johnson & van Roekel, 1977; Levinthal & Fichman, 1988b; Seabright et al., 1992; Bucklin & Sengupta, 1993; Morgan & Hunt, 1994; Das & Teng, 2002; Palmatier, Dant & Grewal, 2007). Some of the core arguments of the social exchange theory can also be found within the resource dependency perspective (Pfeffer & Salancik, 1978), which has been used extensively to argue for the use of interorganizational relationships (Hall et al., 1977; Van de Ven & Walker, 1984b; Oliver, 1990; Bucklin & Sengupta, 1993; Barringer & Harrison, 2000). The resource dependency theory also forms an interesting starting point to look at relationships as resources, as pointed out above.

Another commonly used theory that increasingly has influenced interorganizational relationship research (e.g. Teece, 1986; Powell, 1987; Oliver, 1990; Heide & Miner, 1992; Heide & Stump, 1995; Barringer & Harrison, 2000) is transaction cost theory (Coase, 1937/1986; Williamson, 1975, 1985; Williamson, 1991a, b). This theory takes the transaction as the fundamental unit of analysis. Within traditional transaction cost theory, the market or the hierarchy were seen as alternative governance mechanisms. Later, hybrid forms of governance such as business relationships have also been recognized (Powell, 1987; Williamson, 1991a).

### **10.2.2 Business relationships as social connections**

Beyond focusing purely on repeated transactions as relationships, much of the research on business relationships (e.g. Hall et al., 1977; Dwyer et al., 1987; Crosby, Evans & Cowles, 1990; Heide & John, 1990; Noordewier, John & Nevin, 1990; Heide & John, 1992; Heide & Miner, 1992; Moorman, Deshpandé & Zaltman, 1993) builds on the notion and benefits of relational contracting (MacNeil, 1978; MacNeil, 1980), which suggests that alternative mechanisms than written contracts can be used to govern transactions. The social interpersonal connections represent many of the social governance mechanisms that make formal contracts redundant (Macaulay, 1963). Trust is one such essential governance mechanism (Bradach & Eccles, 1989), which has been claimed to have dimensions that are both organizational and individual (Young & Wilkinson, 1989; Chow & Holden, 1997; Doney & Cannon, 1997; Ganesan & Hess, 1997; Zaheer, McEvily & Perrone, 1998). A number of researchers have recognized the interpersonal interaction that takes place within the interorganizational relationship and its positive effect on relationship development (Cook, 1977; Zeitz, 1980; Van de Ven & Walker, 1984b). In fact, research shows that interpersonal connections are likely to become enhanced across the interorganizational relationship over time (Cunningham & Turnbull, 1982; Palay, 1985; Ring & Van de Ven,

1992; Gulati, 1995). The relevance of social interaction has also been proposed by marketing as a way to separate the marketing of products from that of services (Grönroos, 1980; Berry, 1983; Czepiel, 1990; Yorke, 1990). Additionally, the Industrial Marketing and Purchasing Group (IMP) emphasizes social interaction (Håkansson, 1982; Turnbull & Valla, 1986; Ford, 1990; Halinen, 1997) and the reciprocity among suppliers and buyers as opposed to a more traditional transactional sender-receiver perspective. Moreover, the embeddedness perspective on market exchange emphasizes that exchange is embedded in the social relations of individuals to an extensive degree (Granovetter, 1985). Research within this perspective recognizes that the individual members of organizations are essential for maintaining exchange relationships (Gulati & Gargiulo, 1999).

More specifically, a set of seminal papers within the study of interorganizational relationships uses client-professional relationships within auditing to understand relationship dynamics and the role of the individual attachments in the development of organizational relationships (Levinthal & Fichman, 1988b; Fichman & Levinthal, 1991; Seabright et al., 1992). This research shows that the interpersonal relationship, in the form of direct ties between boundary spanners, plays an essential role in the continuation of the interorganizational relationship.

### **10.3 Understanding the client-professional relationship**

Past literature and research on client-professional relationships have focused primarily on the 'working relationships' within assignments (e.g. Argyris, 1961; McGivern, 1983; Bloomfield & Danieli, 1995; Fullerton & West, 1996; Fincham, 1999; Mills & Moshavi, 1999; Bettencourt et al., 2002; Hislop, 2002; Fincham, 2002/2003; Handley et al., 2006; Nikolova, 2007; Nikolova et al., 2008). This research focuses on the co-operation in the course of an assignment, and thus primarily considers the value creation taking place during an assignment. A main focus of this research is on description rather than conceptualization of the relationship. This research can in turn be divided into two separate traditions. One of these traditions focuses extensively on the development of successful relationships (e.g. McGivern, 1983; Fullerton & West, 1996; Bettencourt et al., 2002; Hislop, 2002). The other tradition takes a more critical and interpretive stance and focuses in particular on the persuasive nature of the consultants (Argyris, 1961; Bloomfield & Danieli, 1995; Fincham, 1999; Fincham, 2002/2003; Handley et al., 2006; Nikolova, 2007; Nikolova et al., 2008). Both traditions focus extensively on the particular characteristics, asymmetries, and tensions of the relationship that make it difficult to become equal partners.

Existing research does suggest that applying the perception of business relationships solely as repeated transactions is not applicable to professional

services. In particular, and as touched upon above, transactions in professional services are highly relational in nature (e.g. McGivern, 1983; Bloomfield & Danieli, 1995; Fullerton & West, 1996; Fincham, 1999; Mills & Moshavi, 1999; Bettencourt et al., 2002; Hislop, 2002; Fincham, 2002/2003; Handley et al., 2006; Nikolova, 2007; Nikolova et al., 2008). Thus, a repeated exchange orientation towards client-professional relationships does not fully reflect the essential individual social dimensions of the client-professional relationship (Levinthal & Fichman, 1988b; Fichman & Levinthal, 1991; Seabright et al., 1992).

#### **10.4 The client-professional relationship defined**

To the degree that a relationship is defined as repeated transactions, it is common to take a dichotomous approach to the existence of a relationship, in the sense that either a relationship exists or it does not. However, if the delivery of an assignment is seen as a 'transaction' within professional services, relationships in fact can and do develop within a single 'transaction', as pointed out above. Thus, the distinction across a relationship and a transaction is blurred in professional services, and referring to relationships purely as repeated organizational exchanges becomes problematic. The research presented in the following recognizes these characteristics of the client-professional relationship. The approach that will be taken therefore is to assume that a relationship continuum exists that ranges from transactional to relational exchanges (Laing & Lian, 2005).

The client-professional relationship, as defined in the following, also incorporates both the organizational and the individual level. Due to the limited research available that incorporates these different levels, looking at key existing definitions of each seems useful – both for business relationships in general and specifically in the case of client-professional relationships. While acknowledging that the PSF context is likely to be particularly dependent on the individual, the richness of the data available on individual relationships in these types of services makes this an interesting research setting to develop knowledge that could be applicable across settings.

At the organizational level, repeated interaction in the form of market exchange is a key condition. A frequently used definition of a relationship from this point of view is Bendapudi and Berry (1997:16), who build on Czepiel (1990) and propose that: '*A relationship exists when an individual exchange is assessed not in isolation, but as a continuation of past exchanges likely to continue into the future.*' Thus, keywords that capture the essence of an organizational relationship within this perspective are: '*continuation of exchange*'.

### Part III: Theoretical development and conceptual model

At the individual and social psychological level, relationships are defined as involving a longer time period than a single encounter between two parties and interaction episodes are assumed to be influenced by past interactions (Hinde, 1979; Fehr, 1996; Price & Arnould, 1999). Danet (1981: 384) builds on social psychology and defines the client-consultant relationship as: '*...sequences of encounters. An encounter is typically a face-to-face interaction between an official or a practitioner and a client or a customer*'. Thus, keywords that capture the essence of this perspective are '*sequences of face-to-face interaction*'.

By reconciling these definitions and perspectives it seems that while they refer to different levels – the organization and the individual – there are key characteristics that allow for a formulation that can be used across both. In particular, relationships have been assumed to be present where two parties have had:

- (a) at least one past interaction; and
- (b) future interactions are influenced by those past interactions.

Building on these considerations, the following definition is proposed from existing research:

*'A client-professional relationship exists where a client and a professional have had at least one prior interaction and where interactions are likely to continue and be influenced by past interactions.'*

In this definition, the client and the professional are assumed to be either organizations or individuals – or both. In turn, the interactions can be either market transactions at the organizational level or social interactions at the personal level. The individual relationships are assumed to cut across the organizational relationship – and the strength of the organizational relationship is assumed to be dependent on the network of individual level relationships (Halinen, 1997; Halinen Kaila & Salmi, 2001). The network consists of the number of ties, including the number of personal relationships, face-to-face interactions, and number of levels across the organizations where personal relationships can be found. Additionally, the intensity of those relationships is important. However, the individual relationship cannot be seen strictly as a result of the organizational relationship; it can exist independently. At the same time, to the degree that repeated firm exchange exists independently of particular individuals, relationships can exist at the organizational level.

An important characteristic of any definition is that it guides our understanding of where a concept 'begins' and 'ends'. Relative to the concept of a relationship, one could ask about the classical analogy of 'two ships passing in the night'. Do these ships have a relationship? The

definition presented above suggests that this is not the case, to the degree that there exists no previous interaction. However, one includes more information about the ships and their crew that suggest that relationships do in fact exist. To the degree that the ships have communicated in the past and communicate via radio and exchange information, a relationship could be established.

Additionally, another point that should help clarify the concept of a relationship is to ask: where does a relationship end? Based on the definition above it is not easy to find examples of cases where a relationship ends. Where there has been past interaction, a relationship does in fact exist according to the proposed definition. A 'divorce' or the dissolution of an interorganizational repeated exchange does not imply that the relationship is ended. While such an act is likely to impact the nature of the relationship and its effect on future interactions, there are still characteristics of the relationship between the parties that are not present where someone never have interacted – and a relationship is still assumed to exist. However, the relationship might be considered to 'fade' at both the individual and organizational level over time. As the individuals that took part in the relationship leave the company and the organizational history of co-operation is forgotten, one might have difficulty assuming that 'future interactions are influenced by past interactions'. Thus, a relationship can no longer be assumed to exist.

### **10.5 The nature of the client-professional relationship**

In addition to defining the client-professional relationship, it seems essential to develop a more in-depth understanding of the variation in nature of relationships and of the dimensions on which relationship strength varies. In doing so, two approaches are taken. First, relevant relationship dimensions are presented. In turn, alternative relationship typologies are presented. As a final section, the exclusivity of the client-professional relationship is addressed.

#### **10.5.1 Relevant relationship dimensions**

By looking at research within the relational view of the firm (Dyer & Singh, 1998), relationship marketing in general (Palmatier et al., 2006) and client-professional relationships in particular (Halinen, 1997), an overview of key dimensions that are important for the strength of the relationship and its effectiveness is presented in the following and summarized in Table 10-1. This overview can be remembered using the acronym BIKIS – a term that will be used in the following to refer to these dimensions.

Part III: Theoretical development and conceptual model

*Table 10-1: Integrated overview of relevant dimensions of the client-professional relationship*

<i>Dimension</i>	<i>Concept</i>	<i>Halinen (1997)</i>	<i>Dyer &amp; Singh (1998)</i>	<i>Palmatier (2006)</i>
(A) Bonds	(1) Trust			
	(2) Commitment			
	(3) Similarity			
	(4) Chemistry			
(B) Infra-structure	(5) Norms, contracts , and routines			
	(6) Roles and positions			
	(7) Resource complementarity			
(C) Knowledge	(8) Inter-firm			
	(9) Interpersonal			
(D) Interaction	(10) Communication frequency			
	(11) Co-ordination adaptation, and conflict.			
	(12) Communication quality and openness			
(E) Outcome	(13) Satisfaction			

Relationship marketing is a vast area of research (Møller & Halinen, 2000; Palmatier et al., 2006). Palmatier et al. (2006) nicely summarize existing research within the area by performing a meta-analysis of past studies to present antecedents and moderators that lead to relationship effectiveness. While relationship effectiveness is likely to be important for buyer selection, the variables included by Palmatier et al. (2006) are buyer oriented and only applicable to the research presented here to a limited degree. The antecedents represent alternative reasons for developing an interorganizational relationship and are highly relevant. The authors categorize these different mechanisms into three types: seller-focused, customer-focused and dyadic. The customer and dyadic antecedents are seen as particularly relevant in the following. The moderators are assumed to say something about the strength of the existing relationship and the reasons why the relationship is strong and are highly relevant in the research presented here.

### Part III: Theoretical development and conceptual model

At the aggregate level, Halinen (1997) proposes that the client-professional relationship consists of four main areas: bonds, infrastructure, interaction, and outcomes. Included in these categories is the relationship knowledge that the buyer and supplier have of each other, which is incorporated in the infrastructure. However, the central role of knowledge in professional services suggests that knowledge can be considered a separate area. Thus, five main areas were identified as key dimensions of the client-professional relationship:

- (A) Bonds, which are the social mechanisms of the relationship
- (B) Infrastructure, which forms the foundation of the development of a relationship
- (C) Knowledge, which concerns the partners' knowledge of each other
- (D) Interaction, which concerns the way in which the parties work together
- (E) Satisfaction, which concerns the experience that the customer has had with the supplier in the past

These areas function as meta-constructs to categorize the key sub-dimensions of relationship strength. To broaden the perspective of the theoretical foundation of the relationship, dimensions identified within the relational view and relationship marketing are incorporated into this framework. The meta-dimensions as well as the sub-dimensions will be discussed in the following. While some of the detailed characteristics of BIKIS can be related to the individual or organizational level, all the aggregate level dimensions incorporate both individual and organizational concepts, and a separation of the dimensions at the individual and organizational level was difficult. At the same time, the relevance of the dimensions at both the organizational and individual level suggests that both these levels are essential in the conceptualization of the client-professional relationship.

#### (A) Bonds

Relational bonds reflect the social mechanisms of the client-professional relationship and are embedded in the continuity of the relationship between the professional and their clients. The key concepts that describe the strength of these bonds are: (1) trust and (2) commitment. Additionally, Palmatier et al. point to (3) similarity, which also can be categorized as a bond. Halinen also includes personal chemistry as part of the personal relationship. However, as the individual and organizational levels are integrated in the conceptualization of the relationship presented here, (4) chemistry is added as the fourth dimension of the relational bond. Each of these will be treated in depth in the following.

Halinen adds attraction as a fourth dimension of the bond. Attraction is defined as the expectation of rewards of the relationship relative to its cost.

### Part III: Theoretical development and conceptual model

Thus, in reality, attraction reflects the concept of customer net value – which is the dependent variable in the study here. Thus, attraction is excluded as a dimension of the relational bond. One interesting note made by Halinen is that the attraction of the relationship has not been given much consideration in past research on buyer-seller relationships. Also, the incorporation of net customer value as a dimension of the relationship suggests that there are feedback mechanisms across the net customer relationship value and the existence of a relationship. This will be commented on in the summary part of this chapter.

#### (1) Trust

Trust is emphasized across all research traditions as an essential dimension of a relationship. Past research also shows that trust is a necessary mechanism for developing efficient relationships in general (Barringer & Harrison, 2000; Palmatier et al., 2006), and in professional services in particular (McGivern, 1983; Maister, 1993; Halinen, 1997; Maister et al., 2000). Theoretical conceptualization of trust comes from a number of different disciplines and the fundamental assumptions underlying the concept are different across these disciplines. Relative to professional services, Glückler et al. (2004) refer to Nooteboom, (2000: 921) and define trust as ‘the expectation that damage will not be caused even though there is both an opportunity and an incentive for the partner to cause damage’. As reflected in this definition ‘expectations’ represent an important dimension of trust across disciplines (Huemer, 1998). In addition, definitions across disciplines suggest that the expectations are related to two particular dimensions: the level of competence of a partner – often referred to as abilities; and the partner’s moral and social responsibility – often referred to as benevolence (Barber, 1983; Giddens, 1990; Ganesan, 1994). Thus, in the following, trust can be defined as *the positive expectations one party has relative to the intentions and abilities of another party*. This definition of trust seems particularly useful in respect to professional services, where there is extensive information asymmetry between buyers and sellers and where competence and motivation are essential for successful service delivery.

In addition to the content dimensions of trust, scholars have also differentiated between levels of trust. Based on past literature (Zucker, 1986), a distinction can be made between institutional and individual level trust. Individual trust is based on a notion of market embeddedness (Granovetter, 1985), where trust develops either based on social structures in the form of networks or through specific relationships. The distinction across individual and institutional level trust is particularly relevant to professions (Clark, 1993; Larsson, 2007). At the institutional level, professional organization and governmental regulation may well impact trust. However,

### Part III: Theoretical development and conceptual model

as this type of trust is likely to be similar for firms in the same industry, it is not likely to impact the selection of providers among clients and will not be discussed further here. Within advertising, Halinen also identifies a distinction between general trust based on generally known characteristics and specific trust based on own experiences. Both of these dimensions are important for the development of a relationship.

#### (2) Commitment

Commitment is seen by Halinen as '*an implicit or explicit pledge of relational continuity between the parties to the relationship*' (Halinen, 1997: 258). This definition is similar to the one proposed by Palmatier who defines commitment as '*an enduring desire to maintain a valued relationship*'. Commitment can be separated into behavioral and affective commitment (Frow, 2007). While, behavioral commitment concerns the presence of monetary and non-monetary switching cost, affective commitment concerns the intensions of the partners and their willingness to continue the relationship. In a focused study of commitment in professional service relationships, Frow (2007) found that affective commitment, based on effort and level of identification with the other party, was the most important component of commitment. Behavioral commitment was found to be less important. Thus, as level of identification is important for commitment, the similarity of the parties in the relationship also seems to be important for its continuation.

#### (3) Similarity

By building on past research within interorganizational relationships (e.g. Crosby et al., 1990; Morgan & Hunt, 1994), Palmatier et al. (2006) point out that similarity in the form of commonality – for example in appearance, dress code, values and norms – is essential for the establishment of interorganizational relationships. Attitudinal and value similarity have been found to promote trust (Dwyer et al., 1987). In fact, a separation in individual level of trust is often made between 'characteristics based trust', which is linked to similarity in characteristics of firms and individuals, and 'process based trust', which develops in the course of past direct interactions (Clark, 1993). At the same time, strategic and cultural similarities of organizations have been found to be positive for the effectiveness of interorganizational relationships (Lorange & Roos, 1991).

#### (4) Chemistry

Authors (e.g. McGivern, 1983) have pointed out that personal chemistry plays a central role in the client-professional relationship. However, as it is a highly tacit concept, many researchers have refrained from further exploring this dimension of the relationship. While Halinen mentions that appeal or chemistry is linked to four different dimensions: personality, professional

### Part III: Theoretical development and conceptual model

viewpoints, interaction styles, and demographic factors, she does not go on to describe these dimensions. Thus, there seems to be room to develop more insight in this area.

#### (B) Infrastructure

Halinen (1997) found that the infrastructure of the relationship – the established social structural mechanisms that develop in the course of the relationship – is important. This infrastructure determines the limits and opportunities for further interaction and the nature of the relationship in which the interaction takes place. Important dimensions of the infrastructure are among others (5) norms and contracts and (6) inter-firm roles and positions. The first of these dimensions corresponds to the knowledge sharing routines proposed by Dyer and Singh (1998) as a source of relational rent. In addition to this dimension, Dyer and Singh point to (7) the complementarity of resources as a source of relational rent which will be added as a third category of the relationship infrastructure.

Halinen includes the personal relationship and inter-firm knowledge as parts of the infrastructure. Individual level knowledge of the personal relationship category and interfirm knowledge have been integrated into the knowledge category above. The remaining categories of the personal relationship were treated above under the bond category.

#### (5) Norms, contracts and routines

Norms and contracts were seen as essential in the relational infrastructure by Halinen. Norms refer to *'patterns of behaviour that develop in the relationship that become expected by the other'*. While in some cases contracts may exist to govern the behaviour, relationships in a professional services setting are often based on tacit agreements, unwritten rules, customs, and procedures. These norms could be related to who talks to whom, how work is done, style of proposals, and the time perspective taken. Halinen points out that the choice of contract depends on the level of existing trust amongst the partners. Halinen also found that relational contracts (MacNeil, 1980) based on trust and social contracts were an important supplement to formal contracts.

Dyer and Sing (1998) point to knowledge sharing routines as an important source of relational rent. A knowledge sharing routine is defined as a pattern of *'interfirm interaction that permits the transfer, recombination, and creation of specialized knowledge'* (Dyer & Singh, 1998: 665). Thus, to the degree that norms concern knowledge, the concept of norms and routines overlap significantly. This overlap is illustrated by the central role of norms

### Part III: Theoretical development and conceptual model

in social capital theory (Nahapiet & Ghoshal, 1998), where they are seen as essential for the transfer of intellectual capital.

#### (6) Roles and positions

Halinen defines roles and positions relative to the responsibilities and the level of involvement of the different parties in the relationship. Roles concern the breadth of activities covered in the relationship. Position refers to the importance of the relationship for the client and professional, respectively. An important point in this area is that there needs to be alignment across the partners regarding roles and positions, if the relationship is to develop positively.

#### (7) Resource complementarity

Building on the vast amount of work in the alliance research tradition (e.g. Hamel et al., 1989; Hill & Hellriegel, 1994), Dyer and Singh (1998) identify partner resource complementarities as essential for relational rent. Complementary resources are resources that are more valuable and inimitable and create more rent when they are combined than they do separately. The resource complementarity of the partners can be seen as a key dimension of the relationship infrastructure.

#### (C) Knowledge

Halinen found that the knowledge that the relationship partners have about each other was a relevant dimension of the relationship infrastructure, which seemed to heavily impact the mutual outcome satisfaction. Dyer and Singh also point to the essential role of partner specific knowledge (Grant, 1996) and in particular, tacit partner specific knowledge (Kogut & Zander, 1992) for the development of an advantage. Halinen points out that the client must have knowledge about the supplier to be able to know if they are able to deliver what is needed: and the seller must have knowledge to be able to know what is needed by the buyer. Thus, (8) inter-firm knowledge is the foundation for understanding how firms can contribute to one another. This understanding is essential for customization (Berry, 1983 :26) and the ability to understand unmet needs (Crosby et al., 1990). In ongoing inter-firm relationships, the parties are more likely to be able to develop inter-firm knowledge and have a basic understanding about each other's skills and capabilities (Heide & Miner, 1992). In addition to firm level knowledge, Halinen also notes that (9) individual level knowledge of each other is important and relates to the duration, intensity and personal orientation of the relationship.

#### (D) Interaction

Social interaction has been mentioned by a number of scholars as a key characteristic of the client-consultant relationship and as essential for its

### Part III: Theoretical development and conceptual model

success (McGivern, 1983; Halinen, 1997). Building on past research within the Industrial Marketing and Purchasing (IMP) perspective on marketing (i.e. Möller & Wilson, 1988), Halinen finds that interaction consists of both interaction processes and interaction styles.

In terms of interaction processes, key components of the relationship and how it develops concern how interaction occurs in the 'exchange' of services. (10) Communication – defined as the sharing of information and meaning across the relationship – was found to be a key component of the interaction processes. In particular, the amount and frequency of communication is important. The quality of the communication has also been pointed out as important within relationship marketing (Anderson & Weitz, 1989; Morgan & Hunt, 1994; Palmatier et al., 2006).

Additionally, (11) co-ordination and adaptation processes were found to impact the development of the relationship. Whereas co-ordination refers primarily to the negotiation and synchronization of the co-ordination, adaptation concerns adjustment of resources, roles, conditions, and investments, in order to understand the partner. From the opposite perspective, Palmatier et al. (2006) builds on past research within relationship marketing (i.e. Anderson & Weitz, 1989; Kumar, Scheer & Steenkamp, 1995) to emphasize the negative effect of perceived conflict on relationship development – which is likely to be the outcome where adjustment does not take place.

Interaction styles concern the way in which the client and the professionals conduct their interaction. A dimension that was found to be important relative to the interaction was the width of the area in which the partners communicate – referred to as the (12) communication openness.

#### (E) Outcome

By further developing past research on interorganizational relationships (i.e. Wilson & Mummalaneni, 1986), Halinen points out that (13) past satisfaction is a necessary condition for the development of a relationship. Building on past research in services (i.e. Liljander & Strandvik, 1995), Halinen points to outcome as a function of satisfaction with the individual assignment and the relationship as a whole.

For the assignment, a distinction could be made between process, service, and ultimate service. The first distinction is similar to that of functional and technical quality (Grönroos, 1982), and thus refers to how the service is delivered and the actual quality of the service output relative to the price that was paid for that service. The ultimate outcome refers to results that cannot be measured before some time has gone by. This distinction between service

and ultimate outcome is similar to the distinction between value in exchange and value in use (Lapierre, 1997).

Relationship satisfaction has been brought forward as a key dimension of interorganizational relationship in past research (Crosby et al., 1990; Palmatier et al., 2006). Thus, the outcomes of assignments undertaken in the relationship are important factors in determining the future of the relationship. This can be seen as the perception of the aggregation of all past assignments conducted, including the processes that took place in these assignments. In addition, other interactions with the partner could be included in this perception. Thus, relationship satisfaction is built not only from assignment satisfaction, but relates closely to the interaction and the existing relationship infrastructure.

### **10.5.2 Client-professional relationship typologies**

Based on a study of the occupational health care market, Liang and Lian (2005) propose that five different types of client-professional relationship can be identified: the elementary relationship, the interactive relationship, the embedded relationship, the partnering relationship, and integration. The key discriminating factors in the identification of these different types of relationship are: trust and closeness. Closeness in turn is described as consisting of several components: time orientation or duration, socialization in the form of existence of personal relationships, communication informality, co-ordination of shared activities, investment in relationship specific assets that lead to customization, and limitations in the activities and boundaries of the relationship. While these dimensions were not referred to under the 'closeness' label by Halinen, they overlap extensively with key dimensions of the components mentioned by her. An overview of the nature of the different relationships can be found in Table 10-1 on the next page. This conceptualization incorporates both the individual and the firm level, and assumes that the relationship becomes stronger as the embeddedness – i.e. the social individual level relationship – is strengthened.

Early conceptualization of the individual level client-professional relationship was proposed by Argyris (1961). Based on in-depth studies, he suggested that the relationship is likely to include rational as well as emotional behavior. However, the organizational and professional setting of the relationship most often implies that emotional behavior is unappreciated. A similar point was brought forward by Ring & Van De Ven (1994), who, building on past research from organizational behavior and sociology (e.g. Guitot, 1977; Gabarro, 1987), point out that role relationships are different from interpersonal relationships. Expanding on previous research in decision making and sociology (i.e. March, 1994; Montgomery, 1998), Heide and

Part III: Theoretical development and conceptual model

Wathne (2006) make a similar distinction between the definition of a friend and a business person. A friend relies on the notion of appropriateness, and the business person on the notion of utility maximization and logic of consequences. These authors point out that business relationships are likely to include both these types of logics simultaneously, and that their impact is likely to vary over time. As noted by O'Malley and Harris (1999: 889), relative to client-professional relationships within law: *'...it is the degree and extent of the interaction between the two (both social and professional), which provides the opportunity and the basis for relationship development.'* The same authors also point out that lawyers and their clients view the degree to which these different components matter differently. While clients emphasize the friendship, professionals emphasize the professionalism.

Table 10-2: Types of relationships and their discriminating dimensions  
Source: Adapted from Laing and Lian (2005)

<b>Defining dimension</b>	<b>Type of relationship</b>				
	Elementary relationship	Interactive relationship	Embedded relationship	Partnering relationship	Integration
<b>Trust</b>	Low	Medium	High	Very high	Very high
<b>Closeness</b>	Arm's length	Close	Interactive	Embedded	Internal
<b>Process factors</b>					
Time orientation	Short-term	Medium-term	Long-term	Long-term	Long-term
Socialization	Low	Medium	High	Very high	Very high
Communication	Very formal	Formal	Informal	Informal	Very informal
Co-ordination	Unilateral	Negotiated	Consultative	Consultative	Provider set
Customization	Low	Medium	High	Very high	Total
Boundaries	Rigid	Permeable	Blurred	Merged	None
Level of embeddedness	Low	←————→			High

To further develop an understanding of the nature of social relationships in a business context, a framework proposed by Mainela (2007) seems useful. Based on an in-depth study of an international joint venture, she proposes four different levels of interpersonal social relationships within business relationships. As the nature of projects in professional services have been described as joint ventures (Baker, 2002; Richter & Niewiem, 2006), this classification is likely to have some relevance for the research presented here. The four different types of social relationships are: reporting relationships, organizational contacts, personal relationships, and friendship relationships. Based on the above mentioned discussion, these different types

Part III: Theoretical development and conceptual model

of relationship can be separated in two groups depending on their primary focus on business or social matters as shown in Table 10-2 – which is similar to the role of a friend or of a professional.

*Table 10-3: A typology of individual level business relationships*  
 Source: Mainela (2007)

Relevant dimensions	Operational/business		Relational/social	
	Reporting relationships	Organizational contact	Personal relationships	Friendship relationships
Relationship nature	Business reporting	Business oriented problem solving	Common language	Well known individuals
Governance	Contract	Contracts and interactions	Personal or 3rd party trust	Personalized trust
Formality	Very high	High	Moderate	Low
Interaction	Limited	Face-to-face Problem based	Close & frequent	Sporadic
Information	Simple & explicit	Problem related	Neutral, needed & salient	Embedded & tacit
Business importance	Low	Problem solving	Development of relationship	Helps solve urgent matters

Among business oriented relationships, reporting relationships are professional and formal and function primarily as channels for transferring information, most often in written form. These types of relationships typically have low importance for business and there might exist one-sided obligations. Organizational contacts are typically more critical and might involve a considerable degree of face-to-face interaction, as adjustments are required. However, the relationship is formal and based on the individuals as representatives of their organization who have undertaken roles to solve particular business problems. While the social relationship is seen as important in these types of relationships, the costs and benefits of a particular service are what matter. As a result, contracts represent an important governance mechanism. These types of relationships are identified as being relevant for door opening.

Mainela (2007: 94) defines personal relationships as ‘ties between individuals who know each other well and have developed a kind of common language for smooth interaction’. These types of relationships are characterized by some level of formality, like acquaintances. However, the interaction in the relationships is characterized by closeness, frequency,

### Part III: Theoretical development and conceptual model

readiness and availability. Finally, personal friendships include personalized trust; there is a willingness to help in urgent matters; and favors are reciprocally exchanged. While the interaction between the parties might be relatively infrequent, there is an expectation that each will help the other.

Beyond the research that has been done on the role of individual relationships in a business setting in general and the client-professional relationship in particular, an extensive amount of research in psychology, social psychology, and biology has focused on the dimensions of interpersonal relationships (Wish, Deutsch & Kaplan, 1976; Clark & Reis, 1988; Berscheid, 1994; Hinde, 1996; VanLear, Koerner & Allen, 2006). While much of this research deals with close family interaction and focuses extensively on the emotional side of relationships - which seems beyond the scope of the research presented here - understanding some of the key dimensions of interpersonal relationships is highly relevant as a starting point for categorizing the individual client-professional relationship beyond the business based typologies proposed above. Relative to the classifications above, the research in psychology also makes a distinction, but at the same time emphasizes the interplay between work and social relationships (Wish et al., 1976).

Key dimensions of interpersonal relationships identified in psychology and social psychology are: closeness and control or power (VanLear et al., 2006). Closeness concerns the level of intimacy or independence in the relationship (Wish et al., 1976). Building on an extensive amount of previous research on relationships (e.g. Hage & Marwell, 1970; Argyle & Henderson, 1985), VanLear et al. (2006) propose that a distinction should be made between personal relationships, which are intimate, close, and interdependent and include marriages and best friends; and social relationships, which are more distant and include acquaintances, friends, and work relationships.

In addition to the closeness dimension, control and power have been pointed out as essential in categorizing relationships in past research in psychology and social psychology (Leary, 1955; Foa & Foa, 1974; Burgoon & Hale, 1984; Haslam, 1995; VanLear et al., 2006). At the relational level, this concerns the symmetry and asymmetry (Wish et al., 1976; VanLear et al., 2006) of the relationship, which in turn concern the degree to which there is equity and low power distance, or inequity and high power distance in the relationship.

By linking the closeness and power dimensions, an extensively cited typology of relational structures has been developed (i.e. Fiske, 1991; Fiske, 1992). According to Fiske, people use four models for evaluating,

understanding and coordinating social behaviour and to build relationships: (1) communal sharing, (2) authority ranking, (3) equality matching, and (4) market pricing. Communal sharing relationships exist in cases where people have a feeling of commonality and equivalence and do not focus on their individuality or differences. Participants feel belongingness to the “in-group” in which members act as representatives. Authority ranking relationships are dependent on the line of command in status hierarchies. Based on the hierarchies, privileges and responsibilities result. In the case of equality matching, reciprocity is used to ensure equity and balance. In these relationships, individuals see themselves as individuals relating to equals. Market pricing relationships are dependent on the cost and rewards of developing a relationship. The degree to which these different coordinating mechanisms are used relative to the client-professional relationships seems interesting to explore.

### **10.6 Single versus multiple relationships**

The above presented typologies do not address whether or not the relationship is exclusive. As pointed out in the introduction, an underlying assumption of the research presented in the following is that organizations use both inter-firm relationships, competition, and co-opetition to extract rent (Brandenburger & Nalebuff, 1996; Lado et al., 1997). Thus, the relationship can or cannot be utilized for a particular exchange. Such a point of view seems to be aligned with past research on relationships in professional services, which suggests that firms use and have relationships with multiple firms over time (Eccles & Crane, 1988; Baker et al., 1998; Broschak, 2004).

In many professional service markets there are institutional rules that indicate that more relationships are accepted (Baker et al., 1998). However, there are differences across industries in the degree to which multiple relationships are common and in their transactional or relational orientation. For example, research on the advertising industry (Baker et al., 1998; Broschak, 2004) has shown that stable sole-sourcing relationships based on exclusivity, loyalty, and infrequent switching are common. In many other administrative professional services, such as investment banking, management consulting and law, sole-sourcing is seen as only one of multiple options (e.g. Baker, 1990; Burt, 1992; Podolny, 1993; Uzzi, 1996). Research has shown that firms deliberately use more suppliers to reduce dependence (Baker, 1990). At the same time, research within sociology suggests that more parallel relationships imply that buyers switch more often (Baker et al., 1998).

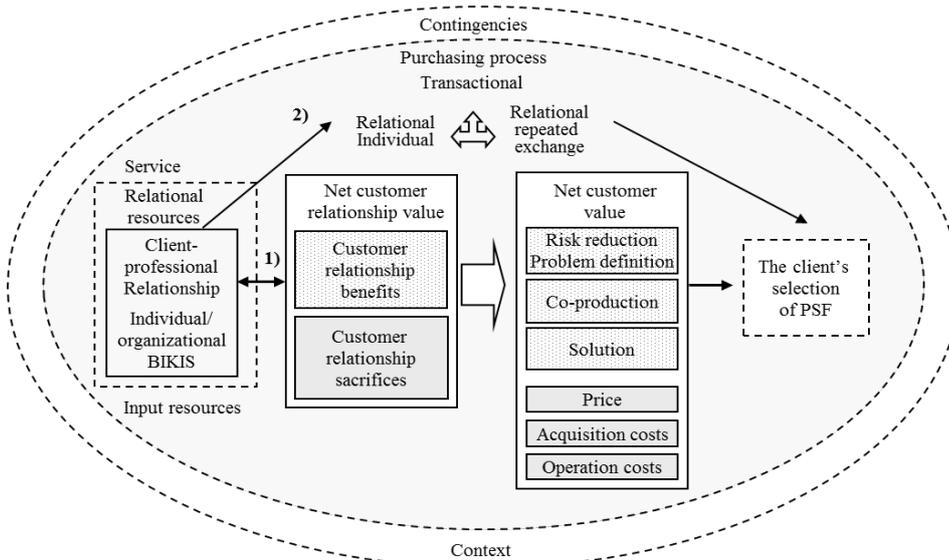
### 10.7 Summary and point of departure

Key dimensions of the client-professional relationship were presented above, through the BIKIS overview. Additionally, typologies of relationships were presented to develop an initial understanding of alternative relationship forms. In the following, these dimensions and forms of relationships will be compared to the findings of the empirical research. In particular, the degree to which the typologies presented above apply in situations where multiple relationships are used by clients will be explored.

The study presented here aims to understand the net value of relationships. Thus, the degree to which the identified characteristics are perceived as benefits by the client will be considered. One important insight gained from the research presented above is that net customer relationship value – referred to by Halinen as ‘attraction,’ cannot only be seen as an outcome of the relationship, but also as a mechanism that supports the continuation of the relationship.

Based on the ideas presented above, the client-professional relationship is conceptualized from the theoretical review, to include not only the organizational, but also the individual level relationship. Moreover, the BIKIS framework gives an understanding of relevant factors that impact the nature of the relationships – where trust represents as essential mechanism. A revised conceptual model can be found in Figure 10-1.

Figure 10-1: Revised conceptual model including a conceptualization of the client-professional relationship



## **Chapter 11: Net customer value of the client-professional relationship**

### **11.1 Introduction**

As pointed out in the introduction, research on the customer value of buyer-supplier relationships is still at an early stage, and more research is needed (Walter et al., 2001; Flint et al., 2002; Menon et al., 2005; Martin-Consuegra et al., 2006). Specifically, limited research has been done to understand relationship benefits and sacrifices in the case of credence goods and professional services (Lapierre, 1997; Howden & Pressey, 2008). The following chapter builds on the existing research to present a conceptualization of customer relationship value in professional services. In particular, benefits and sacrifices of relationships are discussed. These represent key underlying dimensions of net value. First, generic conceptualizations of relationship benefits are considered. Secondly, research on PSFs is used to identify specific factors that are likely to be particularly relevant in this setting. Thirdly, a discussion of generic conceptualizations of sacrifices is provided. Finally, this is integrated into the notion of client relationship value by the presentation of a revised research model.

### **11.2 Customer relationship benefits in general**

Based on relevant existing research (Lapierre, 1997; GwinnerNY et al., 1998; Lapierre, 2000; Sweeney & Webb, 2002; Ulaga, 2003; Howden & Pressey, 2008), a broad categorization of potential customer relationship benefits in a service setting is presented in the following. In particular, the categorization builds on research into customer value in service relationships (GwinnerNY et al., 1998); customer value in professional services (Lapierre, 1997, 2000); customer relationship value in buyer-supplier dyads (Sweeney & Webb, 2002) and industrial business relationships (Ulaga, 2003); and customer relationship value in professional services, in particular in insurance brokerage (Howden & Pressey, 2008). By comparing and categorizing this research, areas of relevant relationship benefits were identified. These areas are shown in Table 11-1.

The different benefits can be categorized into two main groups: benefits that relate directly to the service itself – and those that relate to the benefits the service gives in the buyer organization. These different benefits are referred to as ‘exchange benefits’ and ‘benefits in use’.

Part III: Theoretical development and conceptual model

Table 11-1: Overview of customer relationship benefits

Type of value	Relationship benefit dimensions	Benefit dimension	Identified indicators	Sources
Exchange benefits	Bonds	Trust	Trust, confidence, reduced risk, reduced anxiety, truthfulness, fulfillment of promises, judgment, sincerity, benevolence, honesty and competence, clear expectations, and credibility	Gwinner et al. (1998), LaPierre (2000), Sweeney & Webb (2002), Howden & Pressey (2008)
		Commitment	Commitment to improvements	Lapierre (2000)
		Similarity	Similarity	Sweeney & Webb (2002)
		Social benefits	Friendship, fraternization, social enjoyment, and togetherness	Gwinner et al. (1998), Sweeney and Webb (2002)
	Knowledge	Seller knowledge	Knowledge of customer business and industry, applied knowledge, and knowledge of supplier market	Uлага (2003), Howden & Pressey (2008)
		Buyer knowledge	Known and recognized by seller employees, familiarity, and knowledge of the good employees	Gwinner et al. (1998) and Uлага (2003)
	Interaction	Personal interaction	Communication, problem solving, and accuracy of information	LaPierre (2000), Uлага (2003), Howden & Pressey (2008)
		Co-ordination & adjustment	Willingness to help in times of trouble, problem sharing, willingness to meet needs, mutual goals, flexibility, and common understanding	LaPierre (2000), Sweeney & Webb (2002), Uлага (2003)
	Service	Product/service quality	Service fulfillment and support, performance, reliability, consistency, personal service, and better service delivery	Uлага (2003), Sweeney & Webb (2002), Howden & Pressey (2008)
		Special treatment	Extra services, priority, faster service, expedient processing, and additional service	Gwinner et al. (1998), Howden & Pressey (2008)
		Customization	Tailoring	Gwinner et al. (1998), Sweeney & Webb (2002)
		Economic	Better prices and discounts	Gwinner et al. (1998)
	Benefits in use	Economic benefits	Income, cost reduction, and time saving	Gwinner et al. (1998) Sweeney & Webb (2002)
		Operational benefits	Delivery (on-time, flexibility, accuracy), time-to-market (design, prototype, testing), and service support (product, customer information, outsourcing)	Uлага (2003), Sweeney & Webb (2002)
Strategic benefits		Improved competitive position (reputation, expertise, strategic planning, competitive strength, opportunities etc.)	Sweeney & Webb (2002)	

'Benefits in exchange' can be categorized according to the BIKIS – bonds, infrastructure, knowledge, interaction, satisfaction, categories proposed above – as characteristics of the client-professional relationship. The only characteristic that was not identified as a benefit was infrastructure. In addition to these dimensions, price reductions were identified as relevant. Regarding 'benefits in use', economic, operational and strategic benefits were pointed out. However, these benefits are dependent on the type of customer company and the type of service rendered. Thus, it is difficult to generalize across cases relative to these benefits. However, as pointed out by LaPierre (1997), some generic dimensions might be of extensive relevance even across clients of professional service firms.

### **11.3 Client relationship benefits in professional services**

The research presented above looked at only one particular study from professional services. While insurance brokerage is an interesting example of a professional service, it is not possible to generalize across professional services based on the study of just one industry (e.g. Løwendahl, 1992, 1997). Thus, to broaden our understanding of relationship customer value in professional services, it is necessary to revisit professional service firm literature to try to capture which of those relationship benefit dimensions listed in Table 11-1 are likely to be of particular relevance to clients of PSFs.

Relatively limited research has looked specifically at the benefits of relationships in professional services, and more research is needed in this area. One exception is LaPierre (1997), who found that value creation during the assignment in client interaction can be divided into four components: technical quality, functional quality, relational variables, and image. Relational variables include partnership, involvement and confidence. Thus, this illustrates that the client-professional relationship is relevant. However, he does not explicitly look in detail at how the relationship is valuable beyond suggesting that it is about co-operation in the form of a partnership, customization and co-production in the form of involvement and risk reduction in the form of confidence. Thus, the overall ideas presented by Lapierre seem to overlap with those relationship benefits presented above. Another exception is Lian and Laing (2007), who look at human resource directors relative to occupational health services and point out that the effects of social client-professional relationships are threefold: communication, co-operation and, customization. However, limited detail regarding how these three areas were identified was included in the research.

The above research on professional service value creation suggested that professional service firms create value for customers in three main areas ex ante: risk reduction and problem definition, co-production, and the actual

solution to the firm. While past research on the net value of relationships points to value in use as well as value in exchange – the credence nature of professional services suggests that value in exchange is likely to be the most important. Also, value in exchange is more generalizable across clients. Thus, to the degree that client relationships make a contribution to value in exchange, they are likely to be perceived as valuable by clients.

By building on the above presented research on relationship value in general, and on client-professional relationships in particular, four main benefits of client-professional relationships have been identified:

- Trust that enables risk reduction (11.3.1).
- Partner specific norms and routines that enable co-production in the form of communication and co-operation (11.3.2).
- Partner specific knowledge that enables problem definition and joint problem solving (11.3.3).
- Customization that enables superior solutions for clients (11.3.4).

Each of these four areas of benefit will be discussed in depth below.

### **11.3.1 Trust**

To overcome the risk and uncertainty resulting from the extensive information asymmetry in professional services, Clark (1993) builds on Zucker (1986) to point out that trust producing mechanisms are essential to clients. Therefore, trust and how trust is created are likely to be fundamental in understanding client value perceptions and buyer selection of professional services. Literature focusing on the social embeddedness of organizations (Larsson, 1992, Gulati, 1995, Uzzi, 1997) also suggests using informal self-enforcing safeguards – such as trust – to minimize governance costs. Thus, trust is likely to be of relevance with respect to both the benefits and the sacrifices of the value equation of the relationship.

However, while trust must be recognized as an essential mechanism in markets with information asymmetry, it is the sources of trust rather than the trust itself that have been pointed out in past research as key sources of advantage and purchase criteria in professional services. In particular, reputation, relationships, and referrals are relevant sources of trust (Glückler & Armbrüster, 2003). To understand the client-professional relationship as a source of buyer trust in the PSF and its employees, it is necessary to understand relationships relative to alternative mechanisms of trust, such as reputation and referrals.

Reputation has been proposed by a number of different authors as potentially the most important source of value and competitive advantage for seller firms in markets characterized by information asymmetry in general

### Part III: Theoretical development and conceptual model

(Shapiro, 1983), and in professional services in particular (Dawes et al., 1992a; Clark, 1993; Stabell & Fjeldstad, 1998; Greenwood et al., 2005). Reputation can be defined as the '*perception of a [professional service] firm's past performance*' (Clark, 1995b: 74). To the degree that this reputation is common, general, and anonymous, it can be referred to as public (Glückler & Armbrüster, 2003). From a customer perspective, such a public reputation is likely to be relatively similar to brand name<sup>9</sup>, which a number of scholars (Beatty, 1989; Krishnan & Schauer, 2000; Alvesson, 2001) have proposed is likely to be perceived by clients as an indicator of quality. While such general reputation can be seen as a relevant mechanism for risk and uncertainty reduction, Glückler and Armbrüster (2003) suggest that the information available is general in nature and gives limited insight on actual performance. Clark (1993) also points out that the fluidity of reputation makes it an unreliable indicator of quality and thus, it is a relatively inefficient mechanism for reducing information asymmetry and risk.

In addition to reputation, previous research has shown that buyers often rely on suppliers they have used in the past under conditions of high uncertainty (Podolny, 1994) and information asymmetry (Nayyar, 1990, 1993). Additionally, Clark (1995) finds that the history of past interactions is most important for the selection of recruiting firm. In the case of client-professional relationships in advertising, Halinen (1997) finds that personal relationships are important for the buyer in creating an understanding of the resources and capabilities of advertising firms – which reduces the perceived uncertainty. Knowing the PSF and its employees reduces the perceived uncertainty and risk of the client (Alvesson, 2001), and as a relationship develops over time, it embeds social capital (Nahapiet & Ghoshal, 1998) to an increasing degree - that is likely to reinforce the client's impression of reduced uncertainty (Hitt et al., 2001). Glückler and Armbrüster al. (2003) propose that this social capital – which they refer to as experience based trust – is a particularly important source of uncertainty reduction in management consulting. Experience based trust is derived from mutual commitment that develops over time and is likely to enable a certain level of control. While this mechanism will probably enable access to detailed information about the consulting firm, it also has a number of weaknesses. First, it takes time to

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<sup>9</sup> In discussions of brand and reputation, past researchers (Etterson and Knowles, 2008) suggest that whereas brand is oriented towards customers and focuses on differentiating the offering of a given firm, reputation is 'company centric' and focuses on developing credibility and legitimacy among a broad set of firm stakeholders. As the research presented here is customer oriented, the concepts will be assumed to be similar.

### Part III: Theoretical development and conceptual model

develop and demands extensive maintenance. As a result, it is likely to be limited to a very few exchange partners. Secondly, due to the presence of experience based trust, clients might choose consultants that they have used in the past to reduce uncertainty, even though the consulting firm does not have the appropriate experience.

To counter these weaknesses, Glückler and Armbrüster (2003) propose that networked reputation is a third essential trust based market mechanism in consulting. Networked reputation can be referred to as ‘a friend’s judgment of a supplier based on his personal experience.’ (Glückler & Armbrüster, 2003: 280). The networked reputation mechanism allows ‘thick’ information to be attached to the reputation and does not demand as much maintenance as the experience based trust. In this way, it represents a superior market mechanism relative to reputation and experience based trust. As a result, one would assume that PSFs that rely on this form of mechanism are likely to achieve superior performance.

In a more recent study, Jensen and Roy (2008) has looked at the sequential use of status and reputation in auditing. While these authors talk of status and reputation, their concepts share great similarities with that of general and networked reputation as they are presented above. In particular, they define status as ‘the prestige accorded actors because of their social positions’ and reputation as ‘the prestige accorded them because of their prior performance’ (Wilson, 1985; Gould, 2002; Jensen & Roy, 2008). Thus, while status situates firms in an industry, reputation draws attention to particular attributes. What Jensen and Roy (2008) suggest and find is that exchange partners first use status – i.e. general reputation as defined by Glückler et al. (2003) to screen partners and categorize the market and then use reputation to choose a firm within the chosen status bracket. Therefore, while Jensen and Roy leave out the preference for those that the company has worked with in the past, they do point to the sequential use of general and networked reputation.

However, while networked reputation might represent a superior market mechanism relative to public reputation and experience based trust, Glückler and Armbrüster (2003) point out that German studies of criteria which clients use to select consultants, suggest that selection based on experience based trust is preferred over the use of networked reputation. Glückler and Armbrüster (2003) in fact suggest that the market mechanisms presented above are used sequentially by clients. Public reputation is important in the process of categorizing firms in terms of their status (Podolny, 1993; Podolny, 1994; Chung, Singh & Lee, 2000) – the prestigious and those that are less prestigious – and their focus, for example strategy and IT-consulting. When a client is choosing a consulting firm, they typically start by looking at

the firms in a particular segment of the market. Within the preferred segment, firms with which they have developed experience based trust are likely to be favored. At the same time, research on networked reputation in the form of referrals across professions<sup>10</sup> suggests that while the perceived quality of the firms is likely to be important, personal acquaintances are an essential deciding factor when the quality is seen as relatively similar (Wheiler, 1987). As pointed out by Clark and Salaman (1998: 22): *'There is nothing to evaluate until the client and consultant interact to produce the service. This suggests that at the pre-purchase stage there will be a tendency for clients to emphasize the quality of interaction over other criteria.'*

The above presented research suggests that client-professional relationships are important trust building mechanism for clients in their selection of professional service firms. While networked reputation is proposed as being dominant compared to general reputation, and a preferred substitute where client-professional relationships do not exist, relationships are proposed as being dominant over both these mechanisms of trust.

### **11.3.2 Partner specific norms and routines**

Co-production, or joint problem solving, was pointed out above as a key dimension of value creation in professional services. To achieve a competitive advantage from a PSF point of view, scholars have pointed to client characteristics that are particularly important (Bostrøm, 1995; Bettencourt et al., 2002). Among the characteristics mentioned are: relevant knowledge, trust, willingness to share information, ability to take responsibility for developing solutions, understanding and pertinent response, that the judgment of the professionals is accepted, that the solution is promoted, involvement, and personal dedication of lead client representatives. A number of these dimensions concern the client-professional relationship. While there might be considerable overlap concerning the beneficial characteristics for the PSF and the client, more research is needed to develop a better understanding in this area – by taking a client point of view. In fact, very limited research exists that takes the client point of view to understand the benefits of relationships in the process of co-operation and co-production<sup>11</sup>.

Past studies of market embeddedness (Larson, 1992; Uzzi, 1996, 1997) suggest that social relationships allow quicker, better and more joint problem solving as a result of the existence of routines and mutual adjustment. Researchers have also pointed out that personal relationships are likely to be

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<sup>10</sup> Referrals between accountants, bankers and lawyers.

<sup>11</sup> One exception is Von Matern (1989), who points out that the ability to co-operate is the most important criterion perceived by clients of architecture firms.

important to resolve conflicts in business relationships (Cunningham & Turnbull, 1982; Halinen, 1997). Similar points have been made within transaction cost theory, where relationship specific skills – in the form of knowledge of how to conduct business with an exchange partner, and ability to communicate efficiently – have been seen as important for the reduction of transaction costs (Williamson, 1981; Levinthal & Fichman, 1988a). These points have been used in past research on professional services to argue that norms and procedures, as well as relationship-specific investments, are key sources of benefits of relationships (Broschak, 2004)<sup>12</sup>. Moreover, research points out that relational social capital – including norms – has a key role in the transfer of intellectual capital (Nahapiet & Ghoshal, 1998) and the creation of relational rent (Dyer & Singh, 1998). Thus, relationship specific investments and knowledge sharing routines and norms developed in a relationship are likely to represent essential benefits of relationships in professional services (Levinthal & Fichman, 1988a). However, limited work has been done in this area, especially within professional services, and more research is needed – especially from the client point of view.

### **11.3.3 Partner specific knowledge**

Based on the above description of PSF value creation, knowledge transfer from and to clients is essential to achieve superior results. In fact, some scholars portray PSFs as intermediary ‘knowledge brokers’ that transfer knowledge from one client organization to another (Hargadon, 1998; Sarvary, 1999). Others have pointed out the need to explore the knowledge development processes taking place in client-professional interaction (Fosstenlökken et al., 2003). Beyond the contribution by Løwendahl et al. (2003), limited research has addressed the reciprocal nature of client-professional knowledge transfer. In fact, much of the PSF research focuses on knowledge as an input to PSF value creation, rather than as an output in client organizations, and makes the assumption of seamless professional-client knowledge transfer (Fincham, 2002/2003).

While the role of relationships in knowledge transfer and development across PSFs and their clients has been largely overlooked, other research traditions exist that give indications of the relevance of relationships for knowledge transfer. Research building on the notion of social embeddedness suggests that strong social relationships enable better transfer of complex knowledge, relative to weaker relations (Granovetter, 1973; Hansen, 1999).

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<sup>12</sup> These two dimensions correspond to the two first sources of relational rent proposed by Dyer and Singh (1998).

### Part III: Theoretical development and conceptual model

By building on their own earlier research on the embeddedness of market ties (e.g. Uzzi, 1997; Uzzi & Lancaster, 2003), Uzzi and Lancaster study the price formation in the corporate law market (Uzzi & Lancaster, 2004). In particular, they propose and find that the trust and reciprocity of individual client-professional relationships motivate partners to share private information. Such private information consists, for example, of individual preferences, special needs and objectives, and other idiosyncratic and non-standard information that is not publicly available (Uzzi & Lancaster, 2004).

In his study of the PSF and client representatives' mobility and its effect on firm level relationships, Broschak (2004) also builds on past work by Uzzi (1997) and emphasizes the key role of relationships in transferring private<sup>13</sup> information. This same point is made by Halinen (1997), who expands on Cunningham and Turnbull (1982) to point out that personal relationships are essential for information transfer in interorganizational relationships. While this research primarily takes a PSF point of view, private information is also likely to benefit clients. Access to such information should be important for clients in terms of having in-depth knowledge of the strengths and weaknesses of the PSF and its particular employees. There are also potential indirect client benefits of sharing private information. Partners are likely to learn about each other's products and processes throughout a relationship (Weiss & Kurland, 1997), which should enable them to develop a better understanding of capabilities and needs (Rosenkopf et al., 2001; Lian & Laing, 2007). Building on Peters & Waterman (1982), Czepiel (1990) points out that in the case of heterogeneous services – such as professional services – developing an in-depth understanding of client needs and desires is essential, and also likely to be beneficial to the client – particularly in the form of customization.

#### 11.3.4 Customization

Customization was pointed out above as a key characteristic of professional services. Previous research on interorganizational relationships suggests that higher levels of customization demand greater co-operation between partners (Heide, 1994; Cannon & Perreault, 1999; Bettencourt et al., 2002). Thus, this argument suggests that the nature of professional services is likely to demand interaction and the formation of relationships. At the same time, as a relationship forms and develops, it is likely to enable customization. As pointed out by Lian and Laing (2007), Uzzi (1997) and Uzzi and Lancaster (2004), relationships enable information sharing and communication, which in turn allow a better understanding of the client's needs and impact the service firm's ability to offer superior customized solutions to the client.

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<sup>13</sup> Also referred to as fine-grained information transfer.

#### **11.4 Relationship sacrifices**

Price, acquisition and operation costs were pointed out above as potentially relevant customer sacrifices in professional services. These same categories of customer sacrifices have also been pointed out as relevant in buyer-supplier relationships (Cannon & Homburg, 2001). Additionally, knowledge loss, in the sense that continuing relationships limit the opportunity for clients to develop new knowledge, seems particularly relevant in the case of professional services. The following section discusses the relevance of each of these customer sacrifices for net customer relationship value of professional service firms.

##### **11.4.1 Price**

The relationship between price and the buyer-supplier relationship might be questioned. One perspective would be to assume that price is attached to a product or service and should be seen as independent of the relationship. However, research suggests that relationship specific adaptation in industrial products is in fact likely to lower the price (Cannon & Homburg, 2001). In the case of professional services, or more specifically law services, Uzzi and Lancaster (2004) found that more embedded social ties resulted in lower prices for complex services, but not for routine services. The authors argue that the relationship impacts transaction costs, which allows prices to be lowered. Based on their argument, the need for information sharing and customization relative to complex services, suggests that components of the price are likely to be linked to the existence of relationships.

Further, the research presented above that emphasizes the interactive and customized nature of professional services incorporates the client-professional relationship as part of the service offering, so that qualities of the relationship are likely to impact price. Thus, a reduction in price resulting from the existence of a relationship is assumed to positively impact net customer relationship value, as well as net customer value.

##### **11.4.2 Acquisition cost**

One key type of acquisition cost that has been emphasized relative to both interorganizational and interpersonal business relationships is switching costs (Porter, 1980; Sharland, 1997; Burnham, Frels & Mahajan, 2003; Liu, 2006; Barry & Terry, 2008). In particular, switching costs include past investments lost and costs related to the adjustment to a new supplier (Porter, 1980; Burnham et al., 2003). Thus, investments in relation-specific assets and knowledge sharing routines enable the build up of switching costs. Personal relationships, procedures and knowledge of contact persons can also be defined as perceived switching costs (Liu, 2006). Switching costs are likely to impact the perception of net value among customers (Sharland,

### Part III: Theoretical development and conceptual model

1997; Barry & Terry, 2008). In fact, Berry and Terry (2008) identified switching costs as among the most important costs that determine customer perceived relationship value in industrial services. In the context of consumer professional services, research indicates (Levinthal & Fichman, 1988a; Sharma & Patterson, 2000) that switching costs impact the exit barrier in client-professional relationships.

However, in the case of industrial services, Liu (2006) found that relationship value impacts switching costs, which suggests that the relationships not only impacts value, but also cost. This same finding was pointed out by Wathne, Biong and Heide (2001) within banking. Thus, switching costs are likely to be relevant in understanding both the benefits and sacrifices of client-professional relationships.

Past research has shown that frequency of written communication (Cannon & Homburg, 2001), trust and joint-working (Menon et al., 2005) significantly reduce acquisition costs. In the case of law services, Uzzi and Lancaster (2004) suggest that the presence of trust and information sharing in relationships is likely to reduce both transaction and governance costs. At the same time, when transaction costs are high, the value of the relationship is high, and relationships are likely to be preferred over short term exchanges (Sheth & Shah, 2003).

#### **11.4.3 Operation costs**

Previous studies show inconsistent results regarding the operation costs in buyer-supplier relationships. Cannon and Homburg (2001) found that frequency of both written and face-to-face interaction positively impacts operation cost. Conversely, Menon et al. (2005) found that joint working negatively impacts operation costs. Thus, developing more insight into this area seems interesting.

#### **11.4.4 Knowledge loss**

While close relationships may enable rich exchanges of information, as pointed out above, they are likely to limit access to a multitude of information – which is reflected in Granovetter's (1973) argument concerning the 'strength of weak ties'. In fact, past research on social capital (Locke, 1999; Adler & Kwon, 2002; Edelman, Bresnen, Newell, Scarbrough & Swan, 2004) suggests that close relationships might have a negative effect in terms of loss of objectivity and on the ability to be innovative and creative. This same point has also been made within network theory (Burt, 1992), and is referred to as overembeddedness (Uzzi, 1997). In the case of professional service firms, a lack of creativity could lead to less adequate solutions to client problems and reduced net value creation for clients.

### 11.5 Summary and point of departure

Based on the above presented research, it seems that the benefits of relationships in professional services can be related to the following:

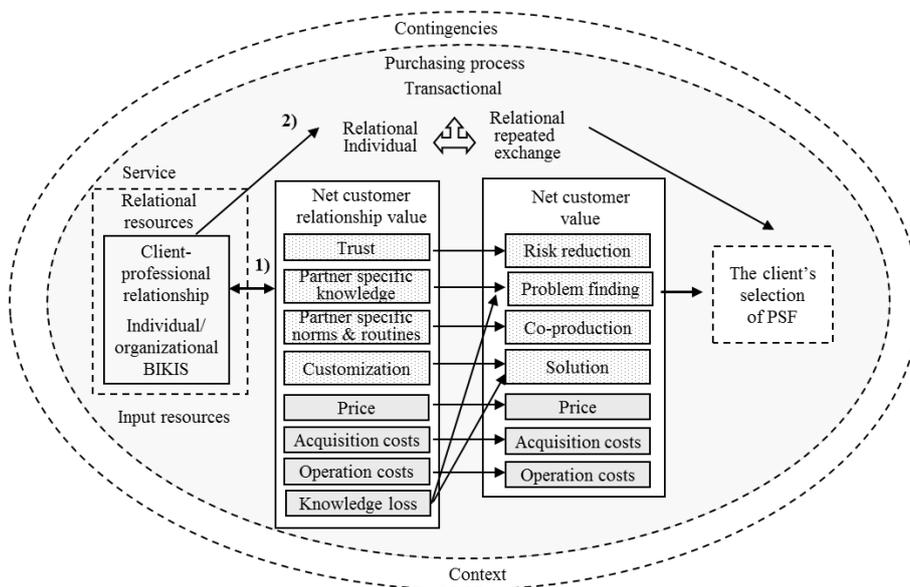
- Trust that enables risk reduction.
- Partner specific norms and routines that enable and enhance co-production.
- Partner specific knowledge that enables problem definition and solving.
- Customization that enables superior solutions for clients.

The identified sacrifices concern:

- Price
- Acquisition costs
- Operation costs
- Knowledge loss, which concerns the buyers' loss of innovativeness and access to new knowledge resulting from client-professional relationships. The lack of innovativeness is likely to impact both problem finding and the solution.

In Figure 11-1 the insights gained from the literature review has been integrated into the research model to propose a base line model for this study.

Figure 11-1: Ex ante conceptual model



## **Chapter 12: Contingency factors**

### **12.1 Introduction**

The unit of analysis studied here is the client organization's purchasing process. To develop an in-depth and contextual understanding of this process, it is important to have initial ex ante knowledge of factors that are likely to impact the type of selection process used by clients. In the following, the most essential contingency factors that impact the use of a relational purchasing process - effect route 1 - are discussed in section 12.2.

In addition to the contingencies impacting the type of purchasing process in place, it seems interesting to develop an initial understanding of the conditions under which client-professional relationships are likely to be particularly valuable for clients. These contingencies are addressed in section 12.3 and consider the direct effect of relationships on client selection – effect route 2.

### **12.2 Contingencies for the use of relational purchasing processes**

Seminal scholars studying purchasing processes (i.e. Webster & Wind, 1972) suggest that environmental, organizational, group and individual factors all influence these type of processes in organizations. In addition to these variables, characteristics of the purchasing situation have been suggested as important factors impacting professional service purchasing in past research (Dawes, Dowling & Patterson, 1992b). While this research does not explore the impact of these different factors on the types of purchasing process used, the variables proposed in this research are relevant and will be used as a starting point to discuss the contingent nature of such processes. By building on adjacent and relevant literature, existing insight on each of these contingency factors is presented.

#### **12.2.1 Environmental factors**

Previous literature on professional service purchasing has emphasized regulation of the public sector (Roodhooft & Van den Abbeele, 2006) as a key contingency factor for the use of relational as opposed to transactional purchasing processes. In the following (A) the regulation, and (B) how past literature has pointed to the impact on regulation on the purchasing of professional services will be presented.

##### *(A) The public purchasing regulation*

The Public Tendering legislation determines in detail the purchasing process of governmental bodies in Europe and the US, in terms of how different types of products and services are to be purchased. This legislation has been

### Part III: Theoretical development and conceptual model

effective in the US since the mid 1970s<sup>14</sup> and is now governed by the Federal Acquisition Regulation. In Europe, public purchasing has been regulated since the early 1990s<sup>15</sup> is now regulated by Directive 2004/18/EC. In Norway, these processes were regulated by LOV-1999-07-16-69-§11 and FOR-2001-06-15-616, which has been updated through FOR-2006-04-07-402.

The basic principles of the legislation are non-discrimination, free competition and transparency of award procedures. The default procedure proposed by the legislation in Europe is open competitive tendering, where all suppliers across Europe can compete for contracts. Under certain circumstances, a restricted procedure can be used, which means that only invited suppliers can compete for the contract. In special cases, a 'negotiated procedure' can instead be applied, which means that the buyer can negotiate the contract with one or more suppliers. Key dimensions that determine what types of processes are to be applied are: the amount of money involved; and the type of service purchased.

In terms of amount, the Norwegian law states that all contracts with a value of more than NOK 500 000<sup>16</sup> should be publically announced at Doffin ([www.doffin.no](http://www.doffin.no)), which is the official Norwegian database for announcing public sector competitions for contracts. For services that amount to between NOK 500 000 and 1.6 million, buyers could choose between three different purchasing processes: open public bidding, limited public bidding, and competition with negotiation. In the case of open public bidding, all suppliers are allowed to submit a proposal and be evaluated. In the case of limited bidding processes, all suppliers are invited to submit documentation of their technical, economic and financial capacity, which in turn is used for the pre-qualification and selection of a predetermined number of suppliers. These qualified and selected suppliers are then asked to submit a full proposal. In the case of competition with negotiation, the same initial procedure is used as in limited open bidding: suppliers hand in a proposal and are pre-qualified and selected based on their technical, economic and financial capacity. In turn, a minimum of three suppliers are invited for negotiations where the content of the offer and the prices can be changed. These negotiations could be initiated through a presentation or discussion

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<sup>14</sup> Office of Federal Procurement Policy Act of 1974

<sup>15</sup> Directives 92/50/EEC, 93/36/EEC and 93/37/EEC

<sup>16</sup> When the data was collected contracts with a value of more than NOK 200 000 had to be listed on Doffin. This was changed to NOK 500 000 in September 2005 by the Norwegian Government. Special rules apply to certain sectors such as building and construction.

### Part III: Theoretical development and conceptual model

with the service suppliers about their offer. Negotiations on the terms of the contract are then made.

Above NOK 1.6 million, the public purchasing regulations differentiate between non-prioritized and prioritized services. Professional services that are listed among non-prioritized services are law services and recruitment services. Professional services included in prioritized services are management and organizational consulting services, IT-consulting services, investment banking services<sup>17</sup>, accounting services and advertising services. For the non-prioritized services, the same regulations apply as for services from NOK 500 000 to 1.6 million.

For the prioritized services, regulations are stricter for services that amount to more than NOK 1.6 million. In particular, the purchase must be done either based on open or limited public bidding and the announcement made not only at Doffin, but also in the TED-database – the official database for announcements of competitions in the EU and EFTA countries.

#### *(B) The impact of the regulation on the purchasing of professional services*

As a result of the public procurement regulation, there is a general difference in the buying processes relative to professional services across the private and public sector (Mitchell, 1998; Lian & Laing, 2004; Roodhooft & Van den Abbeele, 2006). Based on this legislation, all purchases above a specified minimum amount<sup>18</sup> must be based on competitive bidding in the public sector, which suggests that a transactional approach dominates this sector. All processes start with a call for tenders, which should specify the needs of the buyer and the criteria used to evaluate the different suppliers. Firm selection should be based on the evaluation of the listed criteria and should be documented. Thus, there seems to be very limited room for personal relationships and past experience to impact the decisions.

The nature of the legislation therefore limits the ability to rely on co-operation through an emphasis on firm and individual relationships. Even so – and following the increasing reliance on supplier relationships in the private sector (e.g. Helper & Sako, 1995) – public government has shown interest in moving from pure competition to a combination of competition and co-operation (Hoxley, 2000; Lian & Laing, 2004; Roodhooft & Van den Abbeele, 2006). However, limited research has been done to understand how, and to what degree, relationships impact the selection of PSFs in the public sector. The relevance of relationships in regulated processes should therefore be explored further (Erridge & Greer, 2002).

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<sup>17</sup> Except those that are related to emissions.

<sup>18</sup> In Norway 500 000 NOK.

The formal nature of purchasing in the public sector has been found to impact private firms, which are incorporating the level of co-ordination and procedures of the public tendering legislation to an increasing degree (Werr & Perner, 2007). As a result, the impact of managers' personal relationships seems to have been diminished (Werr & Perner, 2005; Werr & Perner, 2007). It would therefore be interesting to develop a better understanding of how relationships impact buying decisions, as these changes are taking place.

#### **12.2.2 Organizational and group based factors**

As pointed out above, firms are likely to choose different buying strategies for professional services (Baker & Faulkner, 1991; Mohe, 2005). To my knowledge, no empirical research has been done to look at how and to what extent client firms apply these different strategies. However, there is reason to believe that they do and that there is considerable variation across firms and situations. Studies have found that organizational policies put restrictions on the degree to which the buying organization is allowed to develop close relationships (Quayle, 1998; Laing & Lian, 2005). In particular, Laing and Lian (2005) point to two key effects of policies and procedures that are likely to impact the use of relationships by buyer organizations: (a) formality and (b) demand for formal monetary evaluation.

Building on prior research (e.g. Blau, 1960; Zaltman et al., 1973), scholars have found that larger (Lynn, 1987; Dawes et al., 1992b) and more formalized (Dawes et al., 1992b) organizations are also likely to have larger buying centers. A buying center is the group of people making a buying decision (Webster & Wind, 1972). In turn, buying center size is likely to impact purchasing processes, as larger buying centers and centers involving purchasing professionals tend to be more formal and include more extensive processes (Werr & Perner, 2007). As a result, personal relationships are likely to have decreased significance in situations where the buying group is large (Lian & Laing, 2007).

While very little research has been done to develop an understanding of the differentiation of purchasing processes in professional services, more research has been done to understand the buying center and who is involved (Lynn, 1987). The typical size of the buying center for these types of services is between one and 15 people (Lynn, 1987). However, relatively seldom there are more than three individuals involved (Dawes et al., 1992b). Research also shows that to the degree that multifunctional teams as opposed to individual departments are involved in the decision on which firm to hire, the approach is likely to be more transactional (Sheth & Shah, 2003).

### Part III: Theoretical development and conceptual model

Managers are often personally involved in the purchasing of professional services (Werr & Perner, 2007). However, research shows that the actual influence that they have often is determined by knowledge (Lynn, 1987), which also implies that functional specialists have a central role in the purchasing of these types of services. As the size of the firm increases, the decisions to hire PSFs are likely to be delegated to functional specialists (Lynn, 1987). At the same time, research has shown that higher levels of knowledge in the buying organization are associated with closer relationships (Laing & Lian, 2005). This point, however, contradicts a line of reasoning proposed by Baker and Faulkner. (1991) who suggest that as the buyers knowledge increases – and makes the relationship more balanced – the demand for a relational strategy decreases. Research by Dawes et al. (1992b) at the same time suggests that as buyers have more product knowledge, they are less likely to involve others in their decisions – which suggest that they are more likely to rely on relational strategies. Even so, more recent research has found that where it is difficult for the buyer to define their own needs – where they have less knowledge of their own need - there will be more resistance towards the purchasing organization's involvement (Werr & Perner, 2007). These contradicting results regarding the effect of buyer knowledge on involvement and use of relational strategies suggests that more research is needed to determine the different effects that buyer knowledge has on the desire and demand for relationships.

In addition to managers and functional specialists, a number of scholars have emphasized the increasing role of purchasing professionals in the purchasing of professional services in both the public (Schiele, 2005; Roodhooft & Van den Abbeele, 2006; Schiele & McCue, 2006) and the private sector (Werr & Perner, 2007). While purchasing professionals were not involved in the purchasing of professional services twenty to thirty years ago, they have started taking a central role in the public sector over the last ten years (Schiele et al., 2006) and are to an increasing degree becoming involved in private companies (Werr et al., 2007). The presence of purchasing professionals in these types of processes is likely to be linked to increasing centralization and use of a transactional approach (Werr & Perner, 2007) as well as to commoditization and maturation of many professional industries (Niewiem & Richter, 2004).

Authors have pointed to a number of positive effects of the involvement of purchasing professionals in the purchasing of professional services (Schiele, 2005; Schiele & McCue, 2006; Werr & Perner, 2007). Among other factors, scholars have pointed out that the purchasing function positively impacts the professionals' performance through contracts, conflict resolution, follow-up (Werr et al., 2007), cost control, scoping and taking an organizational point of view on the purchasing of consultants (Schiele et al., 2006). Against this,

however, research also identifies a lack of trust and confidence in the purchasing department by the organization (de Boer, 1998; Murray, 2001; Schiele & McCue, 2006), resulting from a perception of lack of knowledge relative to the particular service, among other things.

Existing research suggest that relationship characteristics are likely to impact the involvement of purchasing departments. In particular, as the relationship becomes more balanced across the professional and the client, the purchasing department involvement tends to increase (Clark, 1995a; Werr & Perner, 2007). In turn, studies have also shown that as purchasing departments are more concerned with cost as opposed to value, compared to managerial purchasers, they are likely to neglect strong interpersonal relationships (Werr & Perner, 2007). Thus, as the client-professional relationship becomes more balanced through the professionalization and increased knowledge in client organizations, research suggests that purchasing organizations are likely to become increasingly involved, in selection decisions. And as they become more involved strong interpersonal relationships are likely to become increasingly neglected. Thus, developing an understanding of the relevance of relationships in cases where the purchasing organization is extensively involved seems highly relevant in order to understand the research question of this dissertation.

### **12.2.3 Individual factors**

The research presented here does not aim to focus on the impact of individual traits and use of heuristics in organizational decision making. However, there are some essential factors that are expected to have significant impact on the purchasing processes. These will be addressed briefly in the following. Individual factors that have been identified in professional services as important are: knowledge of the service – which has been discussed above – and individual stakeholding (Dawes et al., 1992b; Dawes et al., 1993).

Individual stakeholding relates to the stake that the individual has in the outcome of what is being bought. For example, managers or functional specialists might hire professionals to enhance their own career, to offer internal status (Jackall, 1988), or to offer job security (Sturdy, 1997). A proposition made by Dawes et al. (1992) is that as the individual's stake increases, the risk that the individual perceives is also likely to increase. As the perceived risk increases, research suggests that more people become involved in the buying process (Dawes et al., 1992b), which implies increased formalization and a more transactional orientation.

#### **12.2.4 Situational factors**

Situational factors that have been identified as relevant for the selection of professional services in past research are: buyclass, service characteristics in terms of importance, time-pressure and complexity, and (3) risk (Lynn, 1987; Dawes et al., 1992b; Mitchell, 1994; Mitchell, 1998). However, the research in which these factors has been identified focuses primarily on buying center structure and not on type of process – as pointed out above. Even so, these factors are also likely to be of relevance for the type of purchasing process used by a client organization.

The concept of buyclass refers to the degree to which the organization has purchased the product or service before. A separation of buyclass is typically made between straight rebuy, modified rebuy and new task (Robinson et al., 1967). Differences in buyclass affect risk (Dawes et al., 1992b; Mitchell, 1998) and also purchasing process (Lynn, 1987). There is a considerable difference in risk across a new buy and a rebuy (Mitchell, 1998). The increased risk related to a new buy suggests that more people are likely to be involved, which could suggest that a more transactional approach would be taken. In the case of the rebuy, research shows that these types of decisions are more often based on relationships than is the case of a new buy (Lynn, 1987).

In terms of importance, which can be related to price, duration of project, and impact across the client organization, findings suggest that more important purchases are perceived as more risky and involve a larger buying center and more senior decision makers (Dawes et al., 1992b). However, research on the involvement of purchasing professionals in selection processes also indicates that complexity, intangibility, and urgency might make exclusion of the purchasing department necessary (Mitchell, 1994; West, 1997; Lakemond, van Echtelt & Wynstra, 2001; Smeltzer & Ogden, 2002). This suggests that relational approaches are more relevant under these types of conditions. These results do not give consistent indications in terms of how they are likely to impact the type of purchasing process chosen. Thus, a more in-depth understanding of how importance, complexity, and urgency impact choice of purchasing process should be developed.

An underlying theme of both the individual and the situational factors presented above is risk, which is assumed by Lynn (1987) to correlate with buying center size. While past research has shown that tolerance for risk in the organization impacts buyers propensity to value relationships (Sheth & Shah, 2003), little emphasis has been placed on risk and the selection of type of purchasing process. There are strong indications within transaction cost economics (Williamson, 1975, 1985; Williamson, 1991b) that uncertainty

and risk lead to more relational and internal sourcing. However, limited research has been done within purchasing to confirm this indication and more research is required to strengthen this indication.

In addition to the purchasing situation characteristics mentioned above, there is reason to suggest that the needs of the organization will impact the selection process. In fact, work by Edvardsson (1990) suggests that it is an essential success factor for client's to be able to determine their own need in the process of buying professional services. At the same time, many clients are likely to have difficulty in determining their need (Schein, 1988; Kubr, 1996; Werr & Perner, 2007). However, existing research has not linked the degree to which the buyer has described its need and the type of client need relative to the type of purchasing process. This lack of research suggests that further work is required in this area.

### **12.3 Contingencies determining the value of client-professional relationships**

Contingencies that determine the value of client-professional relationships can be separated in a similar manner as for purchasing processes, which were discussed above. Thus, contingencies can be: environmental (12.3.1), organizational (12.3.2) and situational (12.3.3). However, as the organizational contingencies are largely linked to the purchasing process, this will not be revisited in the following. Environmental and situational contingences will be looked at instead.

#### **12.3.1 Environmental**

Key environmental contingencies identified under the RBV were as follows: information asymmetry (i.e. Foss & Knudsen, 2003), environmental uncertainty (Aragon-Correa & Sharma, 2003; Sirmon, Hitt & Ireland, 2007), complexity (Aragon-Correa & Sharma, 2003; Branzei & Thornhill, 2006), munificence (Aragon-Correa & Sharma, 2003; Branzei & Thornhill, 2006), and type of competition (Haanæs & Fjeldstad, 2000; Foss & Knudsen, 2003). In particular, these factors are suggested to be relevant contingencies that are likely to impact whether or not a resource will in fact lead to a competitive advantage. These same contingencies have been pointed out relative to the customer value of relationships and the antecedents of why relationships are preferred (Bendapudi & Berry, 1997). The effects that each contingency has will be discussed briefly below. However, relative to uncertainty and information asymmetry – including performance ambiguity – these characteristics are seen as dimensions that in fact define the nature of professional services, and the relevance of relationships under such conditions have been discussed in detail above. Thus, in the following, complexity, munificence and type of competition will be looked at.

### Part III: Theoretical development and conceptual model

Additionally, research on relationships suggests that dynamism and presence of expectation about professional detachment are relevant contingencies.

Complexity can be defined as the range of activities a given buyer or firm is engaged in (Dess & Beard, 1984). Relationships are often particularly important under conditions of complexity, as it is likely to be beneficial to have one or several partners that satisfy more needs (Bendapudi & Berry, 1997). In the case of munificence, which reflects the capacity of the environment to support sustained growth, success and survival through the necessary supply of resources (Dess & Beard, 1984), relationships are likely to be particularly valuable where there are few competing alternatives (Pfeffer & Salancik, 1978).

Finally, power balance across actors have been pointed out as relevant contingency factors determining customer benefits of relationships (Sheth & Shah, 2003). In particular, customer power is likely to impact the propensity of customers to want to form relationships. As the customer buying power increases for example as a result of concentration, research suggests that customers will to a larger degree favor relationships to eliminate channel intermediaries and to block new entrants (Porter, 1998; Sheth & Shah, 2003).

The structure of the industry is also likely to impact the type of relationship present across clients and their professional suppliers. An interesting starting point to understand different types of relationships, is to consider whether they are dedication or constraint based (Ganesan, 1994; Bendapudi & Berry, 1997). This distinction is interesting as it says something about the degree to which switching from the relationship is a real option. In the case of a constraint based relationship, the constraints rather than the benefits determine the use of the relationship for selection of suppliers.

In addition to the above mentioned environmental contingency factors, Bendapudi and Berry (1997) mention dynamism as an important contingency. Dynamism reflects the unpredictability of environmental change (Dess & Beard, 1984) as seen from a customer perspective. This unpredictability makes the assessment of trends and outcomes difficult, which in turn suggests that developing contracts is likely to be very expensive (Williamson, 1981). As a result, continuing with the same supplier over time through a relational contract or a firm relationship is often a preferable form of governance (Pfeffer & Salancik, 1978; Aldrich, 1979; Williamson, 1985).

A final environmental contingency that is relevant in the case of professional services is the presence of normative and institutional expectations about

professional detachment and avoidance of relationships (Seabright et al., 1992; Lian & Laing, 2007). Differences in expectations might vary across firms and industries and could be a relevant contingency factor to consider when trying to understand the relevance of relationships in a client's selection of PSF.

### **12.3.2 Situational contingencies**

As pointed out above, the level of perceived risk is likely to be of particular importance for the value of the relationship. In terms of situational contingencies, the nature of the purchase and demand for ex ante and ex post involvement are likely to positively impact the relevance and desire for relationships among clients (Sheth & Shah, 2003). Also, the level of service customization needed seems essential to understand the benefits of relationships (Heide, 1994; Cannon & Perreault, 1999; Bettencourt et al., 2002). Additionally, relation specific investments have been proposed as being important for the interest in relationships (Williamson, 1981). Finally, the frequency of the purchase has an important impact on whether a relationship approach is chosen over a more transactional approach (Berry 1995).

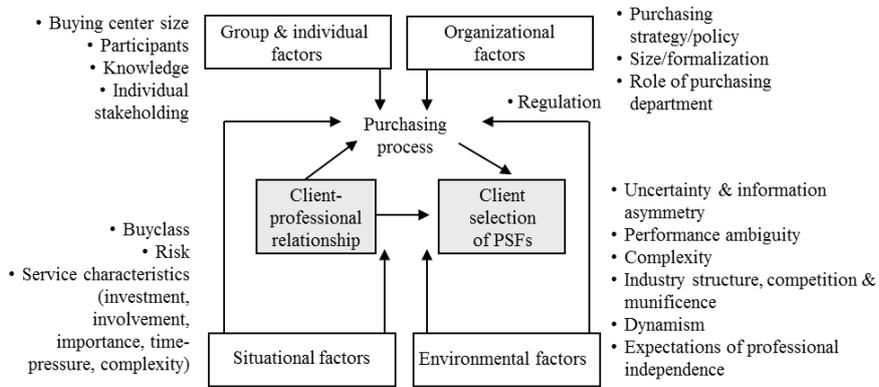
### **12.4 Summary and point of departure**

In the above, potential contingencies that impact the relevance of client-professional relationships on client selection have been proposed. These contingencies were selected from various research traditions and represent an initial starting point to understand the contingencies of client selection processes that will be presented in the following. Thus, they are only indicative ideas regarding potential contingencies to be aware of in understanding the empirical data. This study will aim to develop more insight into the relevance of these different contingencies.

An overview of the proposed contingencies is shown Figure 12-1. In the figure, the two alternative routes of impact that client-professional relationships are likely to have on the client's selection of PSF are incorporated as both the selection of type of purchasing process (route 1) and the impact of the client-professional relationship within a given purchasing (route 2) are incorporated into the figure. The figure illustrates that while all categories of contingency factors seem relevant for the selection of purchasing process, existing literature primarily seems to focus on situational and environmental contingency factors as relevant for the relationship impact within a given purchasing process.

Part III: Theoretical development and conceptual model

Figure 12-1: Proposed relevant contingencies



## **PART IV: EMPIRICAL STUDY**

### **Chapter 13: Research design**

This chapter details the design used to study the research question empirically. The chapter is structured around the three essential elements of research design (Creswell, 2003, 2009): (i) research orientation, in terms of assumptions about ontology, epistemology and the use of deductive versus inductive design, (ii) research methodology, which concerns the choice of research strategy used to approach the phenomenon under study, and (iii) data collection and analysis.

#### **13.1 Research orientation**

##### **13.1.1 Theory and philosophy**

The RBV has been claimed to be an instance of scientific progress within strategic management research because of its focus on reductionism rather than prediction (Foss, 2005). Reductionism can be seen as the search for deep structures and underlying aggregate phenomena (Williamson, 1996). This difference in philosophical orientation relative to much of the other falsification based research in strategic management – which is primarily based on a positivist rather than post-positivist research paradigm – is in fact one of the key reasons for the harsh criticism that has been leveled against the RBV. For example, Priem and Butler (2001a): 22 point out that their ‘analysis is undertaken from a logical positivist rather than a post-positivist perspective’. Thus, while some scholars suggest that the key claims of the RBV are tautological and cannot be falsified, others point to the RBV as a representation of the paradoxes present in the nature of science (Lado, Boyd, Wright & Kroll, 2006). By working through these paradoxes, extensive new insight can be gained – which would seem to be a better path for science than rejecting the RBV altogether. In Chapter 5 above, initial theoretical work has been proposed as repair work to the RBV and proposed as a contribution to the future development of the perspective.

##### **13.1.2 Ontology and epistemology**

The research presented here follows a post-positivist paradigm (Guba & Lincoln, 1994). In particular, a critical realist ontology and ideal objectivist epistemology is used. Thus, it focuses on identifying and categorizing elements and exploring their connections, which fits nicely under the paradigm of critical realism (Guba & Lincoln, 1994; Miles & Huberman, 1994; Perry, 1998).

The critical realist ontology, which is inspired by transcendental realists (Harré, 1972; Harré & Secord, 1972; Harré & Madden, 1975; Bhaskar, 1978, 1979) assumes that mind-independent actual and objective structures and definite properties of social phenomena exist that are researchable (Guba & Lincoln, 1994). While post-positivists – as positivists – assume that an actual reality exists, they make the anti-positivist epistemological assumption that experiences and interpretations vary across researchers and influence what we ‘know’. Thus, I assume that there exists a subjective perception of the objective reality.

Within critical realism, a distinction is made between the empirical, actual and deep levels of reality. While the empirical level refers to our impressions and perceptions of actual events, the actual level refers to those events independently of our perception. The deep level includes mechanisms and structures that govern the actual events. The deep reality may, but does not necessarily, need to create actual events for it to exist. As studies of actual social systems are likely to involve open rather than closed systems, the phenomena under study seem to involve a number of conditions that are likely to inhibit structures and mechanisms to produce actual events. Thus, following this type of ontology, key aims of social inquiry are: (i) to develop an understanding of the actual reality and its underlying governing structures and (ii) to understand the conditions under which these structures produce actual events. Therefore, embedded in this philosophical stance is a contingent understanding of phenomena, which corresponds nicely with the nature of the contingent RBV. Scholars within the marketing discipline have also suggested that critical realism is a fruitful philosophical stance within qualitative marketing research (Hunt, 1994; Easton, 2002).

### **13.1.3 Deduction and induction**

The critical realist assumption about deep structures that only produce actual events under certain conditions and focus on open systems means that replication of research is essential to develop theories of social systems (Kwan & Tsang, 1999). Thus, deduction in terms of building on past theory and utilizing past research for the purpose of generalization and conceptual development is important. However, in the process of developing theories that better explain underlying structures, a certain degree of induction is needed. In line with a critical realist perspective, the research presented here utilizes both deduction, by building on existing theory, and induction, by developing theory based on empirical observations. A quote by Kwan and Tsang (2001:1166) nicely illustrates my position: *‘While realism maintains that there is a mind-independent reality, it acknowledges that theories are products of the mind’s activities, be they intuition, imagination, deduction, induction, and so forth.’*

## **13.2 Research methodology**

A research methodology can be defined as a strategy or plan of action that describes how a particular phenomenon will be studied (Tesch, 1990; Miles & Huberman, 1994). In the following, key arguments for the choice of research methodology will be presented. The research methodology in the form of a research strategy is then discussed. The details of the practical application of the methodology are presented in the methods section.

### **13.2.1 Arguments for choice of research methodology**

The choice of research methodology will be linked to four types of argument: (A) Philosophical, (B) Theoretical, (C) Phenomenological, and (C) Personal.

#### *(A) Philosophical arguments*

The open system orientation and assumptions about contingent causality within critical realism suggests that rich empirical data from actual settings are essential to understand phenomena and develop theory. In fact, the concept of ‘critical’ realism emphasizes the need for critical examination to capture phenomena as closely as possible to the ‘objective’ reality (Harré, 1972; Harré & Secord, 1972; Harré & Madden, 1975; Bhaskar, 1978, 1979). Thus, the use of a qualitative orientation, triangulation of research methods and systematic analysis seem to constitute an appropriate approach to develop knowledge about reality when following a critical realist research orientation (Cook & Campbell, 1979).

#### *(B) Theoretical arguments*

By taking a categorical perspective on quantitative and qualitative research it is often argued that quantitative research primarily deals with deduction, while qualitative theory focuses on induction (e.g. Bryman, 2004). However, while the use of a qualitative methodology is particularly suited for discovery (Guba & Lincoln, 1994), it is also likely to benefit from the guidance of past theory (Yin, 1994; Creswell, 2003; Yin, 2003; Creswell, 2009). The use of a qualitative methodology includes the flexibility that allows for both deduction and induction. Some scholars (e.g. Burawoy, 1991; Andersen, 1997) also point out that case study research can be conducted by following a more intermediary position between the inductive or deductive extremes. Burawoy (1991: 93) suggests that case studies can be used ‘for the purpose of discovering questions and puzzles for theory’. The literature review above suggests that there is a need for more exploration and understanding of the phenomena studied here, which makes a qualitative case study research approach appropriate.

The intangible nature of many of the concepts and key sources of competitive advantage of the RBV suggests that it is a theory that is difficult to measure (Godfrey & Hill, 1995; Miller & Shamsie, 1996; Rouse & Daellenbach, 1999; Hatch & Dyer, 2004; Lockett & Thompson, 2004). As a result of these difficulties, past scholars utilizing the RBV (e.g. Rouse & Daellenbach, 1999) have pointed out that it is likely to be difficult to tease out the fundamental sources of competitive advantage. This is also true for the key concepts that enable us to understand the nature of competitive advantage in professional services. As a result, case studies and qualitative research are likely to offer insight that could be highly beneficial in the process of improving the assumptions and conceptualizations of the RBV (Boxall & Steeneveld, 1999; Lockett & Thompson, 2004) and our understanding of PSFs.

*(C) Phenomenological arguments*

Dimensions that seem particularly relevant when deciding on a research methodology for this study are related to the characteristics of the phenomenon. Characteristics that were found to be particularly important for the choice of methodology were: (1) type of research question, (2) complexity and explicitness of research phenomenon, and (3) need for contextualization.

(1) Type of research question. One way of choosing a methodology is to link it to a type of research question (Marshall & Rossman, 1989; Yin, 1994; Creswell, 2003; Yin, 2003). The question studied here is descriptive and explanatory rather than predictive. Thus, the use of a methodology that enables the development of an in-depth understanding of the phenomena under study seems particularly important. A number of authors have suggested that a qualitative methodology is particularly well suited to answer descriptive and explanatory ‘how’ questions (Marshall & Rossman, 1989), such as the question being posed here. Also, the quality, depth and richness of data needed to understand and explain what is going on in the interrelationships and processes under study suggest that a qualitative methodology is appropriate (Marshall & Rossman, 1989; Silverman, 2001; Creswell, 2003). Yin (2003:5-9) suggests that the use of case studies is a preferred strategy when dealing with ‘how’ and ‘why’ questions about contemporary events that the researchers cannot control.

(2) Complexity and explicitness of research phenomenon. The complexity of the phenomenon also makes it very difficult to understand without using a qualitative methodology. Buying decisions as well as client-consultant relationships have important embedded and tacit characteristics and the complexity and organizational embeddedness of the phenomenon under study suggest that case studies are highly suitable. In particular, case studies

are often used to ‘explain the presumed causal links in real-life interventions that are too complex for survey or experimental strategies’ (Yin, 2003: 15).

(3) Need for contextualization. In the spirit of critical realism, the aim of the research presented here is to develop a contextualized understanding of the phenomena under study. In particular, the research is performed to understand what conditions affect how relationships influence the selection decision. Thus, it seems important to obtain a holistic view of the buying process in its real life context. A qualitative methodology enables the researcher to get such a ‘holistic’ real life understanding (Denzin & Lincoln, 1994). According to Yin (2003), case studies are defined by their concern with context and thus are suitable when contextualization is essential to understand a phenomenon.

*(D) Personal preferences*

Personal experience also impacts the research methodology chosen (Creswell, 2003, 2009). My background as a consultant has meant that I have a deep understanding of the phenomena and research context. As a person I am open and I easily relate to and communicate with people, which I found to be very helpful throughout the research process. Additionally, getting a feel for and understanding of the research phenomena in context appeals to me as this not only enables a deeper understanding of the phenomenon beyond the study of variables in a spreadsheet; undertaking qualitative research in a real setting also contributes to one’s own personal development, which adds a bonus to the research endeavor. Thus, I personally find qualitative research highly appealing.

**13.2.2 Research strategy**

Based on the above presented arguments, a qualitative case study methodology was used to explore the research question being studied here. Some authors define case as the unit of analysis in qualitative research and thus seem to make the assumption that all qualitative research is case studies (e.g. Miles & Huberman, 1994). By following such an understanding of a case, the selection of a qualitative methodology fully corresponds with the use of case study research. Other authors see case study research rather as a unique methodology in contrast to other qualitative methods such as experiment, archival analysis, ethnography, action research and clinical research (Denzin & Lincoln, 1994; Yin, 1994). Within this latter tradition a case can be defined as ‘*the investigation of a contemporary phenomenon in its real-life context where the boundaries between the phenomenon and context are not clearly evident*’ (Yin, 2003: 13). This latter perspective represents the starting point for the research presented below.

Case studies are most often used to ‘*explain the presumed links in real-life interventions that are too complex for survey or experimental strategies*’ (Yin, 2003: 15). A distinction can be made between ‘exploratory’, ‘descriptive’ and ‘explanatory’ case studies (Yin, 1994, 2003). These different types of case studies are intended to develop an initial understanding, describe concepts, or focus on the causality between variables and concepts respectively. The study presented in the following has descriptive as well as explanatory dimensions in that it both tries to develop an in-depth description of key concepts and explain how the client-consultant relationship impacts client selection.

This study applies a multiple case study design (Stake, 2006), which offers great opportunities for developing theories that are more robust than when single cases are used (Yin, 1994, 2003; Gummesson, 2006; Eisenhardt & Graebner, 2007). In particular, the objective of the research is to look for commonalities in the impact of the client-professional relationship across cases. Thus, a maximum variation approach, which is particularly applicable to identify similarities across differentiated cases, will be applied (Glaser & Strauss, 1967; Yin, 1994, 2003). The research takes a replication approach to understand the generalizability of the findings and theoretical claims (Yin, 1994, 2003; Gummesson, 2006; Eisenhardt & Graebner, 2007). In addition to adding to the external validity, multiple case studies also allow for the understanding of the degree to which phenomena are qualified by local conditions (Miles & Huberman, 1994), which enhances the ability to understand the given phenomenon as contingent.

In the process of strategizing about the particular cases to be studied, the unit of analysis should be clearly defined. Additionally, decisions must be made about research context and dimensions on which cases are to be selected. Thus, the following section starts by (A) presenting the unit of analysis of the research; in turn, (B) arguments for the selection of research context are presented; and (C) the criteria used to select particular cases are addressed.

*(A) Unit of analysis*

The main objective of this is to develop an in-depth understanding of the client’s selection of PSF, with a focus on the impact of the client-professional relationship. To develop such an understanding, the unit of analysis in the study is *the client purchasing process*. Research within strategic decision making (Thompson & Tuden, 1959; Cyert & March, 1963; Thompson, 1967; Pfeffer, 1981; March, 1994) has shown that decision processes vary substantially across and within organizations. The research presented above (Werr & Perner, 2007) suggests that this is also likely to be true for purchasing processes that clients use to select providers of professional services. Thus, making sure that cases are selected to reflect the

variation in organizational characteristics and processes seems important. By doing this, it is possible to ensure variation in the independent variable – the relationship – and the impact it has on selection.

*(B) Research context*

The service context represents a highly suitable context to study the application of the ‘open RBV’. While the product represents an essential intermediary carrier of value in product industries, in service industries this is not the case to the same degree. Within services, supplier resources are primarily put directly into the value creation process with the customer, as pointed out above in the description of the co-productive nature of professional services. To the degree that services are characterized by customization and are dependent on expertise – such as professional services – it is difficult for customers to make the evaluation of quality based on a pre-defined service offering. The direct application of resources to client problems rather than the application of predefined services characterizes professional services. Thus, looking directly at the resources that are to be applied to find a solution is likely to represent an important part of the evaluation among clients. These types of services therefore offer a rich context in terms of developing a first understanding of customer evaluation of firm resources. The reason for focusing on administrative professional services (APSs) is primarily personal and relates to my own professional background as a business graduate and strategy and management consultant.

The research was conducted mainly in businesses around Oslo in Norway. This geographical focus was chosen principally for practical reasons, as I am a researcher located in Oslo. The geographical focus however also makes sense from an analytical point of view. First, the main focus of this study is concerned with the relative competitive advantage of firms that are exposed to similar macro factors. Thus, it seems appropriate to limit the variation in macro factors by limiting the geographical scope. Secondly, the Norwegian market for APSs is competitive, as the number of large firms that have the financial resources and size needed to spend extensive amounts of money on such services, is limited. Informants of the research presented here, who had European or international responsibilities, characterized the Norwegian market for APSs as mature and competitive. Thus, it represents a relatively extreme context. As most professional service industries are faced with increasing competition, the findings from this market could have relevance for other markets.

*(C) Selection of cases*

The logic of case study methodology is based on the notion of theoretical or analytical generalization (Yin, 1994, 2003), where existing theory or replicated cases are used as templates to compare the empirical results of the case study. Thus, the selection of case(s) should be based on detailed insight into the phenomenon under investigation and done based on a desire to include variation in explanatory variables and in the phenomenon under study (Caporaso, 1995). This is essential to ensure the external validity of the research. The considerations concerning the similarities and differences among cases, and the criteria or dimensions that are used to establish these similarities and differences, are vital in determining if the results can be developed into generalizable theories.

In particular, building on the literature review presented above, variation in two key dimensions was used to select cases in the research presented below: (1) variation in type of purchasing processes, and (2) variation in professional service characteristics. An overview of the dimensions used is presented in Figure 13-1 and described in detail below.

(1) Variation in purchasing processes

The key difference in purchasing processes concerns whether a 'transactional' or 'relational' process is used. The degree to which organizations apply these types or processes seems to have a significant impact on the degree to which client-professional individual and organizational relationships affect the selection of PSF. Therefore, to develop a generalizable understanding of the impact of relationships, both these types of purchasing processes should be incorporated into the empirical research. As pointed out above, various characteristics of the environment, organization, situation and buying center impact the degree to which the processes are 'transactional' or 'relational'. While all these identified contingency dimensions seem relevant to ensure that both types of processes are included, for an outsider to a buying organization many of them are difficult to identify. One externally identifiable contingency factor that was pointed out above as relevant for the type of purchasing process in place is buyer organizational size. However, in the process of learning to know the phenomenon of professional service purchasing, selecting cases based on buyer organizational size did not appear to be meaningful. In the private sector, smaller organizations are likely to buy APSs very infrequently, which makes identification of relevant firms difficult. Additionally, the size variable is to some degree captured in the volume of professional services purchased by the organization, which will be described below.

In the public sector, the processes are likely to be influenced more by regulation than by the size of the organization. In fact, regulation represents a dimension that is easily identifiable by an outsider and essential as a driver in the choice of purchasing strategy. Thus, variation in the environmental contingency factor 'regulation' was used as a key dimension for case selection.

As pointed out above, the regulation of public purchasing demands that organizations select suppliers primarily based on a transactional approach in the form of tendering and competitive bidding (Mitchell, 1998; Lian & Laing, 2004; Roodhooft & Van den Abbeele, 2006). In addition, the basic principle of equality embedded in the public purchasing regulations implies that personal relationships and past experience with particular suppliers should not guide supplier selection. Thus, the public sector is likely to be more 'transactional' than the private sector.

Even so, the gap between the public and private sectors in terms of 'transactional' and 'relational' orientation is closing. Private firms seem to rely increasingly on practices from the public sector and public firms are more frequently looking to combine competition and co-operation in their purchasing efforts (Hoxley, 2000; Lian & Laing, 2004; Roodhooft & Van den Abbeele, 2006). However, there still exists a significant difference in the orientation across these two sectors. To ensure variance in type of purchasing process and to include both primarily 'transactional' and 'relational' processes, cases from both the private and the public sector are included in the study (a).

In addition to variation in sector, variation in volume of administrative professional services purchased (b) by the organization was used to select organizations to be targeted for cases. This dimension was used as the volume is likely to say something about the level of sophistication in the purchasing processes used by an organization.

#### (2) Variation in professional service characteristics

The nature of a service is often highly embedded in a given problem and dependent on the characteristics of the need as well as the preferences of the buyer and the seller. Thus, as an outside researcher, it is difficult to capture the nature of the service *ex ante*. To be able to understand the variation in service characteristics, therefore, previous research – which will be presented below – suggests that professional services from different industries should be included in the research.

Most research that has been done on professional services focuses on services and firms in one industry, and then makes general claims about

professional services and firms offering these types of services (e.g. Greenwood et al., 1990; Greenwood & Hinings, 1994; Morris & Pinnington, 1998; Hitt et al., 2003; Greenwood et al., 2005; Hitt et al., 2006; Greenwood et al., 2007). This single-industry orientation is also true for research on the purchasing of professional services (e.g. Dawes et al., 1991; 1992a; 1992b; 1993; Poulfelt & Payne, 1994; Day & Barksdale, 2003). In fact, I have found only one empirical study that incorporates multiple service industries in their analysis of professional service purchasing (Gustafson & Di Marco, 1973).

Some exceptions from this single-industry orientation do exist, and a small number of research contributions have intentionally included multiple professional services to capture some of the variance and to ensure the external validity of their research towards PSFs in general (Løwendahl, 1992, 1997; Empson, 2001; Løwendahl et al., 2001; Fosstenløkken et al., 2003; Fosstenløkken, 2007; Skjølsvik et al., 2007; Von Nordenflycht, 2010). This research indicates that some service characteristics differ significantly across industries (Løwendahl, 1992, 1997; Fosstenløkken et al., 2003; Løwendahl, Skjølsvik & Fosstenløkken, 2005; Fosstenløkken, 2007; Malhotra & Morris, 2009) and that focusing on one industry makes it difficult to capture the diversity of professional services. Løwendahl et al. (2005) propose that professional service industries are different in terms of three key dimensions: (i) knowledge intensity, (ii) client-professional interaction, and (iii) the existence of established professional norms. Ensuring variance on all of these dimensions seems important in ensuring that a broad range of professional services is included in the research. The research by Løwendahl et al. (2005) at the same time shows that there is no significant difference across industries in the level of information asymmetry, in the perceived level of client knowledge, and in customization measured directly as customization as opposed to standardization. Thus, these dimensions should not be the primary focus of attention in ensuring professional service variation. Malhotra and Morris (2009) build on the sociology of professions literature to suggest three main dimensions in which professional service industries differ: (a) type of knowledge, (b) jurisdictional control and (c) client relationships. By combining this existing insight these three dimensions was used to select cases in the research being presented here.

In terms of different types of knowledge, Malhotra and Morris propose that there is a difference in the degree to which the knowledge base of the firm is normative – concerning values and norms - or scientific – in terms of focusing on facts and outcome. Alternatively, the knowledge base can be a combination of the two, which is called syncratic. Only technical PSFs truly have a scientific knowledge base. Thus, among APSFs, it is important to

ensure some variation in whether the knowledge base is normative or syncratic.

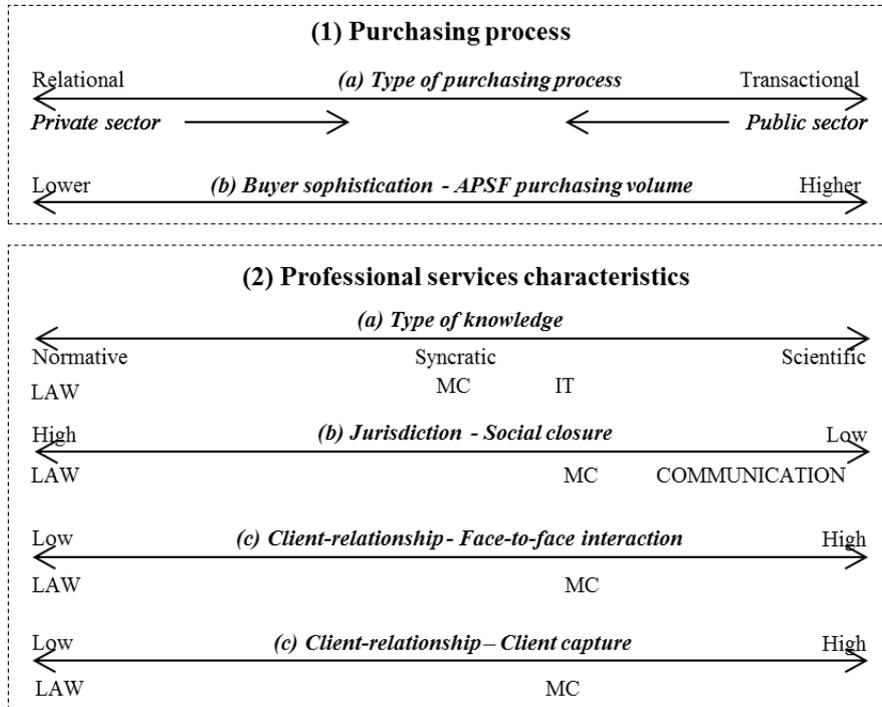
Jurisdictional control concerns the degree to which the profession has achieved social closure, so that special education and practice are demanded to enter and be part of the profession. Also, jurisdiction concerns geography and the degree to which the jurisdictions are different across geographical borders. The research presented in the following aims to ensure variation in level of jurisdictional control across cases.

Finally, client relationships differ across professional service industries. Malhotra and Morris propose degrees of client-professional face-to-face interaction and client capture, which says something about the power of the client relative to the service firm. Client capture is assumed by Malhotra and Morris to influence pricing models, so that when capture is high the client is likely to reduce risk by using a fixed pricing structure. The client relationship, which incorporates face-to-face interaction and client capture, is particularly relevant to ensure variation in the independent variable studied here.

To ensure variation in these different dimensions, different types of services were included in the study. Based on my own experience, management consulting services was chosen as a 'baseline' model for comparison. In turn, this model was used to develop an understanding of the differences and similarities across services. Law, communication consulting and top-management recruiting were also studied through empirical evidence from both the buyer and supplier perspectives. As a result of easy access to the purchasing of a major IT-consulting project, a semi-syncratic and partially technical knowledge base was also included in the research – but this was not a primary focus of the study. Finally, to the degree that buyers of management consulting, law, communication or recruiting services also bought other types of APSs, they were asked to describe their selection of these services for additional comparison. Among other industries touched upon in these comparisons were investment banking, advertising, auditing and financial services.

To illustrate the variation in service characteristics, a comparison across the two most heavily studied industries; management consulting and law services, are plotted on all the key identified service dimensions presented above in Figure 13-1. In addition to these two industries, other industries that add to the variance in a particular dimension are also included in the figure.

Figure 13-1: Overview of dimensions on which cases have been selected



### 13.3 Data collection and analysis

#### 13.3.1 Data collection

The data collection will be described by first presenting (A) an overview of the type of data collected. In turn, (B) particular cases and interviews are discussed. Finally, (C) an overview of the different data collection techniques – in the form of observation and interviews – is presented.

##### (A) Overview of collected data

The nature of professional services greatly restricted the data collection. In particular, because professional services are purchased infrequently, finding similar projects in the private and public sector that were purchased within the two year period (2005-2007) in which the data was collected within the same market – proved difficult. Additionally, the nature of what is purchased in the private and public sector is often different due to different goals and needs. This makes direct comparisons of services across sectors problematic. There is also a large difference in the nature of the purchasing processes across the private and public sector as a result of public sector regulation.

Thus, while processes in the public sector are formal and observable, processes in the private sector are often highly informal and difficult to observe. Additionally, APSs are typically surrounded by secrecy and confidentiality and gaining access to purchasing processes is very challenging. This is especially true for the private sector where these types of processes often involve senior executives. Buyers were very reluctant to add 'noise' to the process by having a researcher present. The selection of purchasing processes studied was therefore influenced by these practical limitations.

Because of the difference in characteristics, the cases and approaches used for the public and private sectors were different. In the public sector, three in-depth cases were studied, two of which were from the same organization. These in-depth studies allowed access to rich data on the phenomenon of professional service purchasing. The details of the studied processes are described in the findings. In addition to these in-depth studies, interviews were done with three representatives of different public buying organizations. A meeting for suppliers relative to a fourth process was also attended.

The interviews and meeting showed that the written documentation of the processes was the primary source that the representatives of the organization used to describe what was going on. The written material was developed in strict accordance with regulations. In the public sector relying on personal relationships and repeated purchases from the same supplier without competition is strictly restricted by law. Thus, the interviews and participation in the meeting added little to my understanding of the impact of relationships on client selection. As a result, further interviews were not conducted and the in-depth case studies were the primary data used to develop an understanding of what happens in the public sector.

In the private sector, the impact of the client-professional relationship on the purchasing process was studied based on one in-depth case study. Due to the less formalized and extensive processes in the private sector, the richness of the case was limited compared to the public sector. Even so, according to the senior representative of one of the consulting firms involved in this process, process was relatively formal compared to his general perception of consulting purchases in the private sector. Thus, the case could be said to represent an outlier in terms of its relatively formal nature. In fact, the formal nature is what made the process observable. The less formal processes – which are common in the private sector – are very difficult to observe. In order to understand these less formal processes, a number of interviews were conducted. In total, 20 interviews were conducted with managers across private organizations to develop a better understanding of the processes. The

number of interviews was chosen based on a saturation approach. As the insight from each new interview was becoming more and more limited, a perceived saturation point was reached.

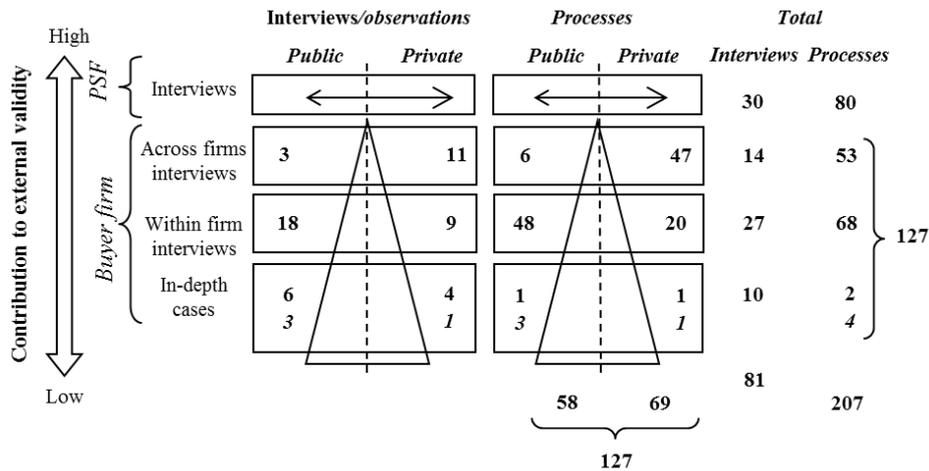
Due to the infrequency; variance in types of processes used, limited direct comparability of processes across the private and public sector, and limited accessibility to buyers' selection of professional services, multiple sources of data were used to develop knowledge on the research question. Thus, within buyer organizations, cases explored were based on three different forms of data:

- (1) *In-depth case studies (4)*: Four in-depth case studies based on observation of meetings, interviews and documents.
- (2) *Within-firm interviews (27)*: Nine interviews with multiple managers from three private firms plus 18 managers and purchasing professionals from two public organizations.
- (3) *Across-firms interviews (14)*: Interviews with managers from eleven private firms and the purchasing managers from three public organizations.

Additionally, interviews were conducted with 30 partners and leading professionals across PSFs within management consulting (20), recruiting (5), law (3), and communication consulting (2). It was difficult to make a clear separation across the private and public sectors relative to these informants – as most of them had had projects in both sectors - as indicated by the arrow in Figure 13-2. In fact, a common issue brought up by many of the professionals was the difference between private and public sector purchasing processes. Together, the professionals had more than 270 years of experience within APSs. As the study is focused on the client's selection processes and the professionals are impacting, but not making the selection themselves, they should be considered observers rather than actors. Thus, their understanding of what is going on from the client's point of view is likely to incorporate certain attribution errors. Research shows that suppliers often attribute buyer behavior to buyer traits as opposed to situational traits, and socially desirable behavior to personal disposition and undesirable behavior to the situation (Jones & Nisbett, 1972; Taylor & Fiske, 1975). Even so, the vast experience of the professionals across an extensive number of processes adds significantly to the external validity of the research.

Thus, in addition to the observation of the four in-depth cases, a total of 81 interviews were conducted across various types of buyer and seller representatives involved in the purchasing of administrative professional services. An overview of the collected material is presented in Figure 13-2.

Figure 13-2: Overview of sources of data



For each the interviews, multiple purchasing processes or ‘cases’ were addressed by the interviewees. The number of processes identified for each buyer interview was based on their description of particular processes. A total of 127 processes were addressed throughout the buyer interviews and cases in the research. The total number of processes covered in each of the different sectors was 58 in the public sector versus 69 in the private sector. As the public sector is more regulated, the processes in this sector are more homogenous, and less information was needed to grasp a public sector purchasing process typology. Also, in the public sector more in-depth cases were included. The difference in data, as pointed out above, was caused by a difference in the formality of processes – where different approaches were taken to get at the phenomena under study.

Many of the professionals seemed highly accustomed and attracted to working with abstractions. Rather than focusing on particular processes, many of the professionals pointed to a generic set of processes. Even so, it seemed that a very limited number of them had pre-developed typologies of the purchasing processes. Rather, they seemed to arrive at conclusions in the interviews. However, comparing the number of processes pointed out by the buyers with those pointed out by the professionals is difficult. Even so, the total number of processes addressed by the professionals was around 80, if particular examples and generic typologies of multiple processes are counted

## Part IV: Empirical study

as individual processes. Thus, in total, the research presented here is based on insight from 207 purchasing processes<sup>19</sup>.

In addition to presenting an overview of processes across the private and public sector, it seems interesting to look at the processes across different types of services. An overview of the types of services covered in the purchasing processes is shown in Table 13-1.

Table 13-1: Purchasing processes by service industry

Data source	Services covered									Total
	Management/org. consulting	Law	Communication consulting	Recruiting	IT consulting	Investment banking	Financial advice	Advertising	Auditing	
Cases	2			1	1					4
Interviews cases	2				11			6		2
Interviews within	34	8	9	1	3	8	1	2	2	68
Interviews across	20	15	1	3	7	3	1	1	2	53
<b>Total processes</b>	<b>58</b>	<b>23</b>	<b>10</b>	<b>5</b>	<b>22</b>	<b>11</b>	<b>4</b>	<b>9</b>	<b>4</b>	<b>127</b>

Almost half of the cases included in the research can be traced to management consulting, which in itself is a highly diverse field. Thus, these cases have in turn been sub-categorized to develop a more detailed overview of the actual sources of data on which the conceptualizations and findings below are based. By inductively classifying the different processes, they were split into eight categories, which are presented in Table 13-2.

Table 13-2: Overview of purchasing processes within management consulting<sup>20</sup>

Sector	Overview MC areas								Sum
	Strategy analysis/consulting	Market/operations analysis	Business/org. development	Implementation/operations	Leadership development	Project management	M&A	Combined	
Public	4	4	6	1	10	3	2	3	33
Private	11	2	3	6	3	0	0	0	25

A distinction between the public and private sector is also presented to illustrate that the empirical data within the baseline model represents both private and public processes. The nature of management consulting services throughout the interviews was found to be different across the private and

<sup>19</sup> The number is not adjusted for instances where the different buyers and sellers address the same process. The general perception of the collected data is not that the same processes are addressed repeatedly.

<sup>20</sup> A comment should be made relative to the 8th category in Table 13-2. This category reflects processes where multiple services were purchased as part of the same process. This type of practice has become relatively common in the public sector with the increasing use of parallel frame agreements.

public sectors related to the differentiated goals and nature of services in each. In the public sector, more emphasis seems to be placed on organizational and leadership development compared to the private sector, where more emphasis is placed on market oriented services.

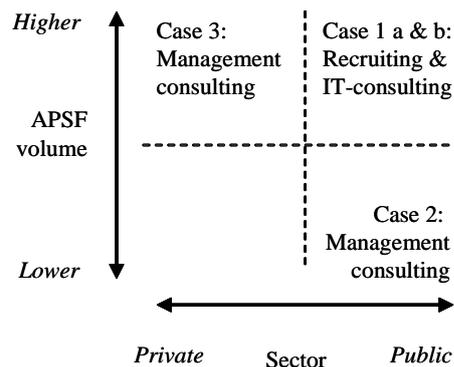
(B) Particular cases and interviews

In the following, the selection of the particular cases and interviews is addressed. To organize the presentation, the four different types of data will be treated separately in the following: (1) in-depth cases, (2) within-firm interviews, (3) across-firm interviews, and (4) PSF interviews. The empirical data is confidential and the real names of the organizations have been disguised.

(1) In-depth cases

The in-depth cases included processes from both the private and public sector and in organizations with varying level of experience and expertise in the purchasing of professional services. As suggested above, both of these dimensions are important indicators of the formality of the processes, the involvement of the purchasing department and the impact of relationships. Also, the in-depth cases included variance relative to the types of services studied. While management consulting services (MCS) were emphasized as a base line model in the in-depth cases, the selection processes related to these types of services were compared to other types of services within each organization, but especially in cases 2a and 2b. An overview of the selected in-depth cases is presented in Figure 13-3.

Figure 13-3: Overview of selected in-depth cases



Cases 1a and 1b were studied in a public organization, RedOrg, during the spring, summer and autumn of 2005. RedOrg is well known among management consultants for its extensive, formalized and sophisticated

purchasing of MCS and other APSs. In fact, many other public organizations were and are copying RedOrg's method of purchasing – also relative to professional services. Therefore, gaining access to this organization was very interesting in order to develop an understanding of the forefront of purchasing practices of APSs in the public sector. While it would have been preferable to begin with an in-depth study of the purchase of MCSs, the timing of the data collection enabled participation in processes related to top and middle management recruiting and IT-consulting services. Access was gained through a meeting with the purchasing manager and a representative from the purchasing department responsible for the particular processes.

I gained access to all internal meetings regarding the selection of suppliers related to the particular processes, which in total amounted to around 100 hours of observation, and access to all documentation related to the processes. In the observations I undertook the role of 'shadow' to the purchasing representative responsible for running the particular processes in RedOrg. While I was not given access to the supplier presentations in RedOrg, I accessed the client evaluations through meetings and interviews with buyer representatives. The participation in the recruiting process gave me valuable insight into the legal regulation of public purchasing processes. I was even allowed to participate in a full day course on public purchasing regulation arranged for RedOrg by the Norwegian Association of Purchasing and Logistics. In addition to the observation of the in-depth processes, I was also given permission to run 13 cross-firm interviews with managers related to their recent purchases of MCSs. This was done in co-operation with the purchasing department and as part of an evaluation of RedOrg's existing frame agreement with consulting service providers.

The other in-depth case study in the public sector, Case 2, concerned purchasing of MCSs and was selected to compensate for the lack of in-depth study of MCSs in Cases 1a and 1b. Case 2 was studied in the autumn of 2005 at a smaller directorate, YellowOrg, that had done relatively limited purchasing of APSs and where past purchasing of APSs had been highly informal. Access to the directorate was gained through an announcement on Doffin (The Norwegian National database for public procurement) which enabled me to make initial contact with and to interview the project manager in charge of the initiative. Based on the first interview, I was allowed to participate in all internal meetings regarding the purchasing process. I was also added to the mailing list used to invite participants to the meetings concerning the particular purchase. Further, I was given access to the supplier presentations. The total number of meeting hours observed in YellowOrg was 30.

In the private sector, the in-depth study was done on MCSs to enable comparison across sectors. Gaining access to the private sector to study the purchase of consulting and other professional services was difficult, as pointed out above. However, I was fortunate to get access to one process through a personal acquaintance who was the internal project manager of the particular initiative for which external support was being purchased. This case was observed in the beginning of 2007. The particular organization, BlueCorp, is one of the largest Norwegian companies in terms of market value on Oslo Stock Exchange. This company is also a large and sophisticated buyer of management consulting and other administrative services. The total number of hours of meetings observed was 15. In this process I was given access to the meetings related to the purchase and to the supplier presentations.

In the organizations where the cases were observed, additional interviews were carried out with purchasing representatives and managers to develop an understanding of the variation in practices across MC services and other APSs.

(2) Within-firm interviews

The two-by-two matrix in Figure 13-3 indicates that the in-depth cases offer limited understanding of private companies that have purchased a relatively limited amount of APSs and have limited experience in this area. Thus, additional data was collected to further develop knowledge on the variation in processes and the relevance of relationships across these processes. Due to the lack of regulation in the private sector, it seemed likely to be much more openness concerning the use of relationships compared to the public sector, suggesting that interviews would be a suitable approach to understand the phenomenon under study. By interviewing multiple buyers of APSs across the same organizations, the aim was to develop a better understanding of the commonalities and differences across services within the same organization. By doing interviews across multiple organizations, the intention was to develop insight into the variation and similarities across organizations.

As the in-depth case study in the private sector was conducted in a large and formalized buyer, it was interesting to include some of the smaller publicly listed companies in Norway in the study to ensure some variation in types of processes. While it could have been interesting to contrast the in-depth case from the large firm with processes in small firms, the degree to which small firms buy professional services is limited. Thus, I chose to look at medium sized rather than small firms to ensure access to multiple APS purchases within each of the firms. Three firms among the group of companies with NOK 3-25 billion in market value at the beginning of February 2005 were included in the study based on my ability to gain access. Multiple

approaches and different key contact points were used across these different organizations to access the relevant people. Each of the companies was originally contacted with the intention of getting access to observe the purchasing processes related to APSs. However, the informal, confidential and infrequent nature of APS purchasing meant that such access was not possible. Even so, the attempts that were made enabled in-depth interviews to be conducted with 3 managers in each the three firms.

Executives involved in the purchasing of APSs vary across organizations and purchasing of MCSs typically involves the CFO, strategy managers, and/or line managers. Thus, picking the same type of manager for each organization did not seem to be the best approach. Rather, informants were chosen based on an understanding of who was actually involved. The degree of access gained was largely determined by the initial contact in the firm and his or her ability to “sell” my project to other executives – which varied across firms.

In the within-firm interviews, the intention was to start by including informants involved in the purchasing of MCSs and then add executives buying other APSs to look for similarities and differences. This was achieved in two of the organizations due to lack of management consulting services purchased in the third organization. In the following, the process of getting access to each of the companies, OrangeCorp, GreenCorp and PurpleCorp, will be described.

In OrangeCorp, the main contact was a project manager known to one of the academic stakeholders in my work. An initial interview was conducted with this person to find that she was primarily buying specialist technical services outside the scope of this study. However, she gave an interesting overview of how APSs are purchased in OrangeCorp. In particular, the strategy and communication departments were mentioned as key areas where services were purchased. In turn, the main contact was extremely helpful in introducing me to relevant and willing key executives. As a result, three interviews were conducted across OrangeCorp involving the CFO, a Senior Vice President (SVP) within Strategy and the Chief Communication Officer. The interviews revealed that the company was buying relatively limited APSs. Thus, the interviews in OrangeCorp did not yield significant amounts of information, but did give a valuable understanding of the purchasing practices of a low volume purchaser of APSs. In particular, the company applied highly informal and people based processes. To develop a richer understanding, it seemed important to access companies with somewhat larger purchasing volumes.

GreenCorp has been known among management consultants as a relatively large buyer of consulting services relative to its size. It therefore seemed an interesting organization to explore to develop a better understanding of how purchases of APSs are made by an experienced buyer. To initiate the interviews, a formal letter was sent to the Senior Vice President of organization and human resources asking whether GreenCorp would be interested in taking part in the study. In turn, a meeting was arranged to present the project and discuss the possibility of GreenCorp's participation. Following the meeting, the representative agreed to set up interviews with relevant buyers of these types of services. As a result, interviews were conducted with the SVP of Strategy, the SVP of communications and the manager of organizational and leadership development.

PurpleCorp was a low volume buyer of APSs and was contacted through the executive vice president (EVP) for business development. The chief executive of purchasing in the firm then contacted me and agreed to forward my request to relevant executives. As a result of this request, interviews were conducted with the EVP of human resources, the EVP of corporate communication and the chief legal officer. The interviews showed that PurpleCorp purchased a limited number of APSs and utilized highly informal processes.

The interviews conducted allowed me to gain access to companies buying varying volumes of APSs. This variation enabled the development of knowledge of both formal and less formal purchasing processes and the relevance and impact of relationships across these different types of processes.

### (3) Across firm interviews

The across firm interviews were made with one key representative involved in the purchasing of administrative professional services in 11 different companies. These interviews were carried out to enhance my understanding of the applicability of the findings from the in-depth cases and within firm interviews across a wider set of organizations. The particular individuals were selected to ensure variation in type of organization, both in terms of size and purchasing volume and governance. Three of the top ten listed companies on the Oslo Stock Exchange (OSE) and a number of medium sized companies were included among the organizations. The smallest firms had around NOK 1 billion in revenue in 2005. Organizations with private and international ownership, as well as one Norwegian subsidiary of an international firm, were also included. To ensure variation in perspectives, buyers with different roles, such as the chief financial officer (CFO), chief strategy officer, deputy chief executive officer (CEO), and business area management were interviewed. As with the in-depth cases and within-firm

interviews, accessibility impacted the ten selected organizations and informants.

The informants in the across organization interviews were picked based on their assumed involvement in the purchase of MCSs. However, as I was conducting the initial interviews, it became evident to me that the same people buying MCSs were buying a number of other APSs. Thus, comparison across services could easily be achieved by letting the selected informants describe all the services they were involved in. By letting the informants describe purchases across services, it was possible to get insight on commonalities and differences. As pointed out above, making such comparisons is important to further develop our understanding and knowledge of the purchase of APSs in general. An overview of the services purchased by each of the informants in the across firm interviews is presented in Table 13-3.

Table 13-3: Overview of service industries involved in the across-firm interviews

Company/ Company size	1 Top 10 OSE Company	2 Top 10 OSE Company	3 Top 10 OSE Company	4 Top 50 OSE Company	5 Top 50 OSE Company	6 Top 50 OSE Company	7 Top 100 OSE Company	8 Top 200 OSE Company	9 Internat. >\$5BN Company	10 Subinter. \$2 BN Company	11 Private >\$1BN Company	
<b>Role of informant</b>	EVP Strategy	Division VP of sales and marketing	Business area respons- ible	CFO & SVP IT	SVP business develop- ment/ Division head	Pur- chasing/ contract manager	SVP Business develop- ment	Deputy CEO	SVP Organi- zation and communi- cation	Business develop- ment manager	CFO	<b>Total per service</b>
<b>Management/ organizational consulting</b>	3	3	3	2	1		1	2	2		2	19
<b>Law</b>	1	1		2	1	2	2	2	1	2	1	15
<b>Communication consulting</b>									1			1
<b>Investment banking</b>	3				1					1		5
<b>Recruiting</b>	1								1			2
<b>Accounting</b>				1								1
<b>IT-consulting</b>				1		x					1	2
<b>Advertising</b>									1			1
<b>Financial consulting</b>											1	1
	8	4	3	6	3	2	3	4	6	3	5	47

(4) PSF interviews

The supplier interviews were done with 30 professionals across different types of PSFs. An overview of the types of individuals interviewed can be found in Table 13-4.

Table 13-4: Overview of interviews with informants from PSFs

Firm	Description of firm	Services of firm	Sector	Informant
1	Large multinational	Management and IT consulting	Primarily private	In charge of strategy practice in Norway
2	Large multinational	Management consulting	Primarily private	Principal/senior manager Norway
3	Large multinational	Management consulting	Primarily private	VP/ Nordic responsibilities
4	Large multinational	Management consulting	Primarily private	Partner, in charge of Norwegian operations
5	Large multinational	Strategy & management consulting	Primarily private	Partner with European responsibilities
6	Large multinational	Strategy & management consulting	Primarily private	Partner
7	International	Management consulting	Primarily private	Senior partner
8	Large multinational	Management & IT consulting	Public & Private	VP/ head of MC services Norway
9	Large multinational	Management consulting	Primarily private	Ex-senior consultant with extensive experience across consulting firms
10	Large multinational	Management & IT consulting	Private and public	Partner responsible for public sales
11	Nordic	Leadership development	Private	Managing director
12	National	Strategy & management consulting	Private	Senior partner
13	National	Strategy & management consulting	Private	Senior partner/CEO
14	Small national	Management consulting & leadership development	Private & public	Partner/ ev-managing director
15	National	Management consulting & leadership development	Public & private	Managing director
16	National	Management consulting	Private & public	Ex-consultant in charge of proposal in case 2
17	National	Management consulting	Public	CEO
18	National	Management consulting	Public & private	Consultant in charge of proposal in case 2
19	National	Management consulting	Private & public	CEO, founder
20	National	Management consulting	Private & public	CEO, founder
21	Large National	Law services	Privat	Partner/ managing director
22	Large National	Law services	Privat	Partner/managing director
23	Specialized National	Law services	Private & public	Partner
24	Large international	Communication consulting services	Public & private	Partner /managing director Nordic
25	Small local	PR/communication consulting	Private (& public)	Partner/managing director
26	Large international	Recruiting	Private & public	Partner/ CEO
27	Local	Recruiting	Private	Partner/managing director/co-founder
28	Local	Recruiting	Private	Partner/co-founder
29	Local	Recruiting	Private & public	Partner/co-founder
30	Local	Recruiting	Private & public	Partner

### (C) Data collection techniques

Data collection techniques used in the research presented here were primarily: (1) observations and (2) interviews. Utilizing the two different data collection techniques enabled triangulation and added greatly to the insight gained through the research process. Documents were also used as background information to develop further understanding of the different processes, but were not included in the analysis and will not be described in detail in the following. Rather, the following describes the process through which the observations and interviews were conducted.

(1) Observation

In the in-depth cases, observation was the main technique used for data collection. The observation was done in meetings, where, following my objectivist ontology, I took a detached role. A common classification of detached researcher roles differentiates (i) the complete observer and (ii) the observer-as-participant (Gold, 1958; Junker, 1960; Hammersley & Atkinson, 1983). The difference between these two roles is the level of social interaction and contact between the researcher and those being observed. The complete observer is assumed to have no contact with those being observed. The observer-as-participant, on the other hand, is assumed to have contact with and take part in the social interaction of those being researched, but should not impact the decisions taken by those being observed.

I aimed to try and have as little impact as possible on the people and situations being studied. I did this by limiting my social interaction with them. Still, my mere presence is likely to have had some impact on the proceedings. Taking a very distant and introverted role might in fact seem more intimidating and strange to those being observed and influence the situation more than when the researcher takes a low key, but friendly position towards those being studied. Therefore, I undertook an 'observer-as-participant' role where I focused on maintaining natural social interaction with those being studied to limit my influence. I tried to dress, position myself in the room and act in a manner that detracted as little attention as possible from what was going on in the meetings. For example, I was very particular about dressing 'business casual' and arriving at meetings before they started, to avoid interruptions.

In the meetings I was introduced as a PhD student doing research on purchasing of consulting services. I did not speak in the course of the meetings beyond making a very brief introduction of myself including my name and my affiliation as a researcher. Throughout the process I was addressed by the meeting participants only five times related to humorous incidents and questions they thought a 'student' from a business school might possibly answer.

All those involved in meetings where I participated were assured of the confidentiality of their statements, both relative to external stakeholders and also internally relative to management and colleagues.

Throughout the meetings I focused on noting down all statements made by the different participants as faithfully as possible. My aim was to get as accurate a transcription of what was being said as possible, as I was not allowed to tape the conversations. After the meetings I fully transcribed my notes.

As a control over the impact of my presence, I asked each of the key contacts in the in-depth cases about their perception of my involvement in the particular process, after the supplier selection was made. Based on their experience with other processes, they said that they perceived my presence to have had little impact. However, in two of the organizations studied, past processes involving similar types of services had been much less formal and focused in terms of following the rules of the organization compared to the processes I observed. This could be caused by the fact that processes are in fact becoming more formal, both in the public and private sector, as pointed out in the literature review. However, it could also be caused by the fact that my presence impacted the degree to which the key contact persons focused on following existing rules. Even so, as the primary objective of this research is not to determine the frequency of the application of different types of processes, but rather to understand the impact of relationships in these processes, the risk of increased formality as a result of my presence has limited impact on the reliability of the insight gained.

## (2) Interviews

In addition to observation, the main data collection method was interviews. The interviews were conducted from 2005 until early 2007. To gain access to do interviews, each of the informants was contacted via e-mail. In this initial e-mail I assured the informants that the interview would be confidential and findings from the research reported in such a way that individual informants would not be identified. The research project and the interview theme, in terms of purchasing processes and criteria used, was also briefly described. The focus on relationships was not emphasized to get a more realistic understanding of how important the relationships were compared to other criteria.

All the interviews were carried out at locations chosen by the informants, which meant that most were conducted in their offices or in a meeting room at their company's premises. The average interview lasted around 60-90 minutes. However, in interviews with RedOrg and in a few of the across-firm interviews, the informants only had 30-45 minutes available. In other instances the informants had set aside more time and had extensive insights they wanted to convey. In these cases, the interviews lasted for up to two hours or more. I politely ended some of the interviews that were moving beyond the scope of the research questions – for example if the respondents were addressing purchases that did not involve professional services.

In the interviews I presented my work experience as a consultant to give an initial pointer to my insight of the phenomenon under study. Thus, in the interviews I was perceived more as a researcher and an equal to the informants, than as a subordinate 'student'. This approach was taken to

create an atmosphere that allowed for truthful sophisticated answers by the informants, as they had faith in my understanding of the topics being addressed. As in the observations, I tried to draw as little attention as possible to my personality. At the beginning of the interview I also pointed out that the objective of the interview was to let the informants do the talking rather than me and that I was interested in getting their perspective on the given topic rather than present my own ideas.

The format of the interviews was semi-structured in the sense that I used key questions and let the informants elaborate on those questions. To structure the interviews I used an interview guide. The selection of topics and questions was driven by the research questions. If the informants did not get to the key topics that I wanted to address based on my rather broad initial questions introducing a particular topic, I had sub-questions ready to turn the conversation to the areas I was particularly interested in. In addition, I used different types of probes (Easterby-Smith, Thorpe & Lowe, 1991) to get at the phenomenon under study. For example, questions were repeated and more detailed explanations were asked for. Even though the wording of the questions was somewhat different, the structure of the interview guide was similar for both the buyers and suppliers of APSs, except for the across firm interviews in RedOrg, where the guide was adjusted to fit the needs of the frame agreement evaluation. An overview of the topics and questions addressed is included in Appendix 2.

The interviews were structured so that the most straightforward questions, such as the respondent's background and the purchasing process, were tackled first. The more complicated and complex questions, such as the criteria, were addressed next. Finally, the relevance, concept and impact of relationships were considered. Addressing the relationships at the end of the interview was done intentionally to limit overemphasis on relationships by the informants. By focusing on a broader set of phenomena it was easier to understand the relationships in their context rather than as an isolated phenomenon.

During the interview introduction, I asked each of the informants if I could record the interviews. I assured the informants that their identity would not be revealed in this report. All the informants, except for four of the lawyers, agreed to the tape recorder. Following the interviews, the tapes were transcribed and each of the interviews recorded in Atlas.ti, which is software that helps organize and analyze qualitative research.

### 13.3.2 Data analysis

In much qualitative research, particularly among researchers with a social constructivist epistemology, data collection and analysis of data are assumed to be simultaneous and interrelated (Easterby-Smith et al., 1991). The data is often analyzed as it is collected and questions paraphrased across interviews to better understand the phenomenon under study. While some questions have been paraphrased throughout the research process, the comparative nature of this study made it necessary to ask similar questions across cases and interviews until saturation was achieved. An *ex ante* understanding of the phenomenon under study, based on theoretical reviews and personal experience, was used to ensure the relevance of the questions posed. This made a highly explorative orientation less relevant. Rather a comparative orientation was taken, where collecting similar information across informants and cases was considered important.

The collected data has been analyzed using data reduction methods. The main analysis methods used have been coding and matrixes (Miles & Huberman, 1994). In the case of the matrixes, both case and variable oriented approaches have been used. Building on ‘the ladder of analytical abstraction’ (Carney, 1990; Miles & Huberman, 1994), the analysis was initiated at level 1 by summarizing and packaging the data through descriptive coding. To develop familiarization with the data, all the material was coded into the main categories – processes and criteria, of which the relationship was considered to be one criterion.

At abstraction levels 2 and 3, more detailed analyses were done. At level 2, the data was studied in greater depth and more detailed codes and memos were used to develop an understanding of the themes, trends and relationships in the data. In turn, at level 3 the development of explanations and typologies was made based on matrix analysis and by comparing quotes across informants. However, following the question-and-answer format (Yin, 1994, 2003) of the research presented here, the codes, matrixes and use of quotes have been used differently across questions to best get at the particular phenomena under study. The analyses used to address each of the research topics – (A) processes, (B) criteria and (C) relationships – are introduced below. Further details on each of the analyses and displays of the data are shown in the following chapters as the findings from the empirical data are presented.

#### *(A) Purchasing processes of APSs*

As shown in the literature review, past research has seldom focused on developing purchasing process typologies. As a result, the analytical approach to developing knowledge in this area involved a considerable

degree of induction. To develop an understanding of the purchasing processes, each of the approximately 200 processes described by the buyer and PSF representatives was initially identified. In turn, the processes were mapped using meta-matrixes (Miles & Huberman, 1994). Thus, a case oriented approach was taken. In doing this analysis, the in-depth cases were first analyzed and a typology of processes slowly emerged. This typology was then used as a categorization scheme and tested for the processes found in the interviews. Memos in PowerPoint and Word were used to develop an understanding of the nature of the typology as it emerged. Finally, a content analytic summary of the different types of processes was developed using a spreadsheet in Excel. The results of this analysis are described in the following chapter.

*(B) Selection criteria*

As a starting point, the in-depth cases were coded for selection criteria. While existing research on criteria seemed to be based predominantly on quantitative rather than qualitative research, it did offer an interesting starting point for developing an understanding of the selection criteria. At the same time, it seemed essential to let the 'data' determine the categorization. Thus, a deductive and inductive approach was used. While concepts from past research were used as pattern codes (Miles & Huberman, 1994) and as a basis for the coding of criteria mentioned by the buyers and sellers of APSs, new codes were added to the degree that criteria that were not covered by the initial codes and concepts were mentioned. Based on the in-depth cases, a revised coding scheme was developed and 'tested' on the interviews for generalizability. The coding process was done using the code function in Atlas.ti. As the initial codes are listed in the chapter on literature review, it was also easy to see what codes were added and which were not used in the analysis of the empirical material. Such a comparison is offered in the presentation of the empirical data. A Word document was used to make memos of the content of codes, in addition to comments about new codes that were added. In turn, the empirical data related to each of the codes was printed and the core nature of the different concepts described based on the statements categorized under each of the codes. To display the codes, a content-analytic matrix was used. A frequency table for the different criteria across cases was also developed to illustrate the relevance and importance of the different criteria. Based on this process, the criteria used by buyers in the selection of professional services are presented in the following chapter.

*(C) The impact of relationships*

The analysis of the impact of relationships was done in three steps. First, all the material referring to relationally oriented dimensions of selection was coded under the descriptive code 'relationship'. This material was then separated into two main codes: a descriptive code 'relationship concept'

concerning the nature of the relationship— which enabled the conceptualization of the meaning of a relationship in the process of selecting a supplier; and a pattern code ‘relationship impact’ focusing on how and why the relational dimensions were of importance in the selection. Each of these processes of analysis will be described in detail under the empirical findings.

Particular emphasis was placed on developing an understanding of the concept of a relationship as a selection criterion and potential source of competitive advantage for PSFs. As a starting point for the analysis, the dimensions of a relationship identified in the literature review were used for sub-categorization. To the degree that categories were not covered or relational dimensions in the data did not fit into the predefined categories, new categories were added. A Word document was used as a memo to manage the adding of codes and to write down comments about the nature of the relational sub-categories. The relevant dimensions of relationships as selection criteria will be presented in Chapter 16.

Next, the data that concerned the impact of the relationship on the selection of a supplier was analyzed separately from the statements about the concept of a relationship. In this analysis the data was coded into three main groups: general statements about how relationships impact the selection, statements about how the sub-categories of the relationship concept impact the client’s selection of PSFs, and statements about how the sub-categories of the relationship interrelate. Based on this categorization different types of impact were traced. In turn, contingencies of the relationship effects were mapped across purchasing processes and industries. Finally, an exploratory initiative was taken to understand the degree to which the effects of relationships and their sub-categories are dependent on contingency factors other than purchasing process and industry. The results of these analyses are presented in Chapters 17 and 18.

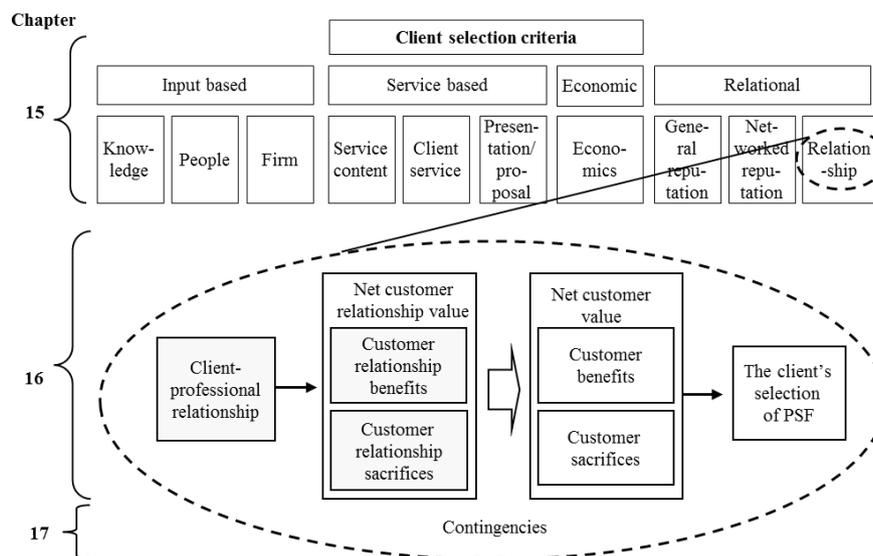
## Part IV: Empirical study

## PART V: EMPIRICAL FINDINGS

Following the question-and-answer format of this research, the findings and results of the empirical study will be structured to address each of the research questions. In particular the findings will be structured to address:

- (A) *Buying processes (Chapter 14)*. In this chapter an identified typology of processes is presented to address the question of ‘how’ APS are purchased.
- (B) *Selection criteria (Chapter 15)*. Based on the criteria identified from past research, an overview of relevant criteria and sources of competitive advantage in professional services is presented. Even though the client-professional relationship was listed among the selection criteria by buyers, these relationships are a major center of attention in this study and the presentation of the relationship and its impact on selection has been spilt into a separate chapter as illustrated in Figure P5-1.

*Figure P5-1: Overview of empirical findings on selection criteria and the impact of the client-professional relationship*



## Part IV: Empirical findings

- (C) *The concept of a client-professional relationship and its impact of the client's selection of PSFs.* The relationship chapter represents a key part of the study and two areas will be addressed relative to this topic, as reflected in the research sub-questions:
- (1) *The nature and characteristics of the client-professional relationship (Section 16.1).* An in-depth description of the client-professional relationship as described by the informants in the research is presented.
  - (2) *The impact of the relationship and its dimensions (Section 16.2).* In this part the overall impact of the relationship and the impact of the sub-dimensions of the relationship are addressed.
- (D) *Contingencies of the relationship impact (Chapter 17).* Four main groups of contingencies have been separately identified that will be addressed: (1) regulation, (2) organization, (3) group and individual, and (4) situation based contingencies related to buyer needs and the nature of the client-professional relationship.

As pointed out above, the approach and insight presented under each of the questions will be differentiated as described in detail in the method section above.

## **Chapter 14: Client purchasing processes**

### **14.1 Introduction**

As pointed out above, past research on purchasing processes in general and processes used to buy professional services in particular, has focused predominantly on the development of generic ‘one-process-fits-all’ frameworks. Very limited research and literature have considered typologies of purchasing processes. Thus, the following chapter aims to add to existing literature by developing such a typology based on empirical research. As pointed out above, understanding the purchasing process of clients is fundamental in order to understand the relevance and importance of the client-professional relationship and relational dimensions in the selection of PSF. In the process of tracing and developing a relevant typology, the in-depth cases are used as a starting point. In turn, the interview based material is used to test and develop the categories of the typology.

### **14.2 In-depth cases**

The purchasing processes for each case will be described in detail to develop an initial in-depth understanding of the potential existence of a typology of purchasing processes.

#### **14.2.1 Case 1a and 1b in RedOrg**

Cases 1a and 1b were both studied in RedOrg, which is a very large organization with more than 5 000 employees and several divisions within different areas. It is known as a large scale buyer of administrative professional services. Throughout the 1990s the organization made extensive efforts to move from being a governmental institution to becoming a market oriented organization. The arrival of a new purchasing manager from the private sector in the late 1990s led the organization to restructure its purchasing processes and approach throughout the end of that decade and during the early 2000s. In particular, purchasing has been increasingly professionalized and centralized in the organization. In addition to specialized purchasing professionals in the different divisions of the company, there is a centralized purchasing department that works to promote cross division synergies from purchasing. The organization makes extensive use of Interdisciplinary Purchasing Teams (IPTs) in its purchasing processes. These teams consist of relevant stakeholders and specialists in particular areas of a purchase.

RedOrg aimed to use extensive parallel frame agreements across all areas of purchasing. Frame agreements are contracts between buyers and suppliers of professional services that determine the conditions under which certain types of products and services are to be purchased by the organization (FOR-2006-

04-07-402, §4-2, f.). The contracts are typically signed for a limited period of time. As a company uses more of these types of contracts at the same time for the same type of services, they are referred to as parallel agreements. RedOrg was a pioneer in terms of the areas in which it applied these types of agreements and a number of organizations that are obliged to follow the public purchasing regulations have followed its practices. One area where this has been the case is within APSs. The frame agreements have developed into a customary practice of the law and have become implicitly discussed and accepted by governing bodies. However, they were not specifically regulated by law before 2006.

#### **Case 1a: Recruiting services**

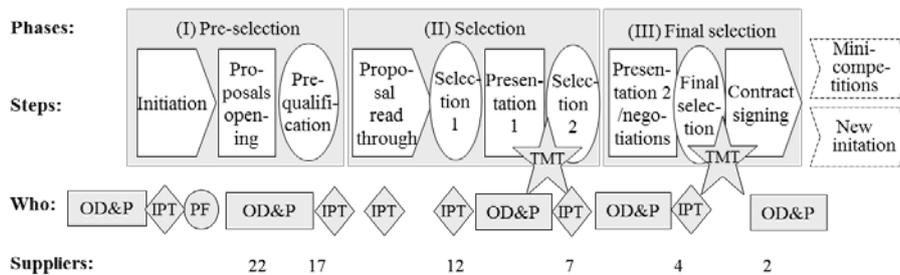
This purchasing process was initiated following the expiry of a previous contract with an executive search agency. This agency had had an exclusive agreement with the organization for three years. However, the company was primarily oriented towards top management search, and was among stakeholders that RedOrg perceived to not be able to offer sufficient services within middle management and specialist recruiting. The selection of this company had been based on a public tendering process where three different suppliers had been selected to supply RedOrg. However, due to complications in the process of signing the contracts, only one contract was signed. Following the expiry of the contract RedOrg needed a more differentiated portfolio of suppliers to support its need for recruitment services. Recruiting services are differentiated across search and selection (Clark, 1995a). Whereas search refers to a proactive approach in which the recruiter takes the initiative to search for suitable candidates in relevant positions, selection is a more reactive approach to recruiting, where advertisements are used as a way to attract candidates to apply for a job. RedOrg was primarily looking for search services and already had an agreement in place for selection recruitment, but needed a wider range of areas in which the suppliers had a good understanding of relevant candidates. Thus, the service can be considered moderately knowledge intensive in terms of the need for knowledge both of the buyer firm and potential candidates.

The process concerned a frame agreement contract related to the purchasing of three different categories of recruiting services: top management (level 1); middle management (level 2 and lower); and specialists (specialist, project managers and sales personnel). In the internal meetings related to the process it became clear that RedOrg had an ambition to have 1-2 suppliers within top management; 2-4 suppliers within middle management; and a total of 3-5 suppliers. While these numbers were clearly communicated internally, the competition document did not state exactly how many suppliers RedOrg

wanted. Rather, a loose formulation – ‘a few’ – was used to describe the number of suppliers that would be signed.

The purchasing process in Case 1a is shown in Figure 14-1. At the top level the process can be divided into three main phases: (I) pre-selection, which represents the pre-selection of the suppliers that were qualified to be allowed to deliver a proposal for the contract; (II) selection, which concerns the evaluation of suppliers relative to one another; and (III) final selection, which concerns selection among a final set of suppliers as well as contract signing. Each of these phases will be described in the following.

Figure 14-1: Selection process in Case 1a



Case 1a: (I) Pre-selection

The purchasing process was initiated by two representatives from each of the departments of organizational development (OD) and purchasing (P). As an initial part of the process, the purchasing representative developed a draft of a competition document specifying the needs of the organization and the conditions for the competition. This document was developed based on documents from past competitions within the same and similar areas, which were received by the purchasing manager directly from colleagues who had been in charge of previous competitions. In turn, contact was made with all relevant parts of the organization to get their input on the document. After incorporating these comments, the document was sent out for consideration to the Interdisciplinary Purchasing Team (IPT) and personnel forum (PF), a forum for all executives involved in personnel and human resource decisions. Their comments were then included in the document. A description of the needs of the organization and the documentation that should be provided by the suppliers was given in the document.

As the competition document was being finalized, the competition was posted on Doffin as a ‘competition with negotiations’, which means that the process is competitive and involves supplier presentations and negotiations. This procedure was chosen as recruiting services are defined as non-prioritized services. Suppliers had two weeks to respond to the notice and

show their interest in participating in the competition. In addition to this posting, those involved in the process from personnel made direct contact with agencies that they wanted to take part in the competition. The agencies that showed interest were sent the competition documentation and had four weeks after the deadline to submit their proposal.

After the deadline, RedOrg used a formal procedure when opening the 22 proposals they received. In the formal opening they considered whether all proposals were delivered in time. The law demands that proposals that are not delivered on time must be rejected. In turn, the representative from organizational development and purchasing went through all the proposals to check if all prescribed documentation was included. The prescribed documentation is listed in Table 14-1. A matrix for each supplier was used to record the submitted documentation. To the degree that documentation that was mandatory according to the law was lacking – which was the case for one supplier – the purchasing representative contacted the supplier to obtain the missing documents.

*Table 14-1 Overview of documentation for pre-qualification*

<b>Prescribed documentation</b>				
<i>Area</i>	<i>Description</i>	<i>Case 1a</i>	<i>Case 1b</i>	<i>Case 2</i>
Judicial	Firm certificate	x	x	x
	HES-declaration	x	x	x
Economic	Tax certificated	x	x	x
	VAT certificate	x	x	x
	Annual reports (last 2-3 years)	x	x	x
Qualifications	Documentation revenue relevant types of services (last years)	x	x	x
	Documentation technical qualifications: Key deliveries (last 3 years)	x	x	x
	Overview employees (split professionals and administrative)	x	x	x
Solution	Draft solution		x	
	Overview knowledge and experience of employees to be used on the assignment		x	
	Documentation of experience from similar assignments		x	
	Overview of methods to be used		x	
	Documentation of ability and intention to give insight to client relative to the solution		x	
Co-operation	Documentation of ability and intention to develop a working relationship with the client organization		x	

In the process of qualifying the suppliers, four were disqualified based on their economic situation, capacity and niche orientation, which was outside RedOrg's needs. Based on these evaluations by the representatives from department for organizational development and from purchasing (OD&P), the IPT met to decide on the disqualifications. In this meeting a fifth firm was rejected based on low capacity and vulnerability. The IPT also considered the categories in which the different suppliers were to compete: top management, middle management and/or specialist. While the suppliers themselves had indicated where they saw themselves as relevant, the IPT considered whether they should compete in fewer categories. After the IPT meeting the five suppliers that had been disqualified were sent a letter stating that they had not qualified for the competition and the reasons for this decision. The rest of the suppliers were asked to submit a proposal to compete for a contract.

#### Case 1a: (II) Selection

After the qualification of the suppliers, which was a 'yes' or 'no' decision relative to the given documentation and demands, the competitors were evaluated relative to each other based on the submitted proposal. The selection process was initiated by a read through of all the proposals from each of the suppliers by the IPT. In the evaluation of the suppliers, inferior agencies were excluded. Clear inferiority of suppliers is an acceptable argument for rejection according to the regulation. To compare the firms, a matrix including ratings and comments was used actively. Each of the IPT members was given access to a copy of the evaluation matrix and used it as a guideline in their evaluation of each of the proposals.

The selection process by IPT as a group was done in three steps. The first two steps involved selecting relevant firms and the final stage focused on the combination and complementarity of firms as well as on negotiation and contract signing. In the following, selections 1 and 2 are treated as part of the selection phase and selection 3 is considered as part of the final selection stage. Thus, the stages of the selection process that will be described in the following are (i) selection 1, (ii) presentation 1, and (iii) selection 2.

##### *(i) Selection 1*

Following the read through of the documents, the IPT group met to select among the qualified supplier firms who would be invited to present. In the meeting, firms were first categorized according to whether they supplied top management, middle management or specialist services. Following this categorization, the companies were compared relative to one another to look for complementarities. In this process it became clear that the complementarity of firms was just as important or even more important in the evaluation than determining the superiority of the particular firm. In this

initial selection process it was considered important to try to limit the number of firms that were invited to present to ten.

In the end five suppliers were excluded in the first round of selection and ten of the 22 suppliers were asked to present. Two additional companies were kept as alternative suppliers, but not invited for presentations as they were well known in RedOrg. Instead of the presentations, phone calls were made to inform them and make required clarifications.

*(ii) Presentation 1*

The presentations by the suppliers took place over one week. Before the presentation each supplier was given an indication by RedOrg about where and how they needed to improve their proposal in order to be selected. Each supplier was given 30 minutes for their presentation. In these presentations the director of OD, the human resource director and the purchasing representative attended from RedOrg. RedOrg's needs were first presented by the OD manager. The suppliers then presented their process, method and knowledge. These topics and level of detail were covered in different ways across suppliers. The suppliers were also given the opportunity to submit a revised price.

In parallel with the supplier presentations, a presentation of the process and how the 12 suppliers on the short list had been selected from the 22 initial proposals was made to the top management team (TMT) of RedOrg. Following the presentation both the CEO and the Chief Strategy Officer pointed out that they could not be involved in the decision on which firm to hire due to existing close relationships with some of the firms. As a result, the overall responsibility for the process was transferred to the CFO. He gave his 'go ahead' on the continuation of the purchasing process.

*(iii) Selection 2*

Based on the supplier presentations the IPT met to discuss the different suppliers and the impression that they had given in the meetings. Based on these discussions, five suppliers were excluded in this step of the process. Thus, from an initial 22 suppliers only seven suppliers were retained.

Case 1a: (III) Final selection

The goal of RedOrg was to arrive at 3-5 suppliers in total. Thus, to reduce the number of suppliers even further, another round of presentations was initiated. The TMT decision was subsequently made and the contracts signed. As part of the final selection process, four different phases will be presented: (i) negotiation, (ii) selection 3, (iii) TMT decision, and (iv) contract signing and follow up.

*(i) Negotiation*

This round of presentations was primarily concerned with negotiations, where the presentations were oriented towards clarifications of the offers being made. As part of this phase the OD executive and the representative from purchasing met with five of the seven remaining suppliers. The final two suppliers that did not meet the representatives of RedOrg in this phase were well known across RedOrg and were already working for the firm. In connection with these final meetings, areas that required improvement were addressed and the contract negotiations were carried out. The results of this process included one supplier reducing its price by more than 15%.

*(ii) Selection 3*

Following the final presentations and negotiations, the IPT met again and decided to hire four suppliers. In addition, the contract with the supplier of low-end recruitment services was extended to include search services for specialists and middle management. This company had been used for these types of services in the past, but had no contract for them.

*(iii) TMT decision*

The TMT made the final decision on which firms to award frame agreement contracts. In making this decision, TMT decided that one of the suppliers, the main agency supplying top management recruiting services, should be rejected as they had poorly handled a recent critical assignment. As a result, only one firm was left in the top management category of services. As no other supplier among those who had handed in a proposal were considered to be able to replace this agency, a decision was made to run a new separate competition with a public call for top management recruiting services. This process was separate from the case being studied here and will not be discussed in further detail.

*(iv) Contract signing and follow up*

Following the TMT decision related to Case 1a, contracts were signed with the two new suppliers to RedOrg. In turn, a meeting was arranged to introduce them to the firm. The purchasing manager responsible for the process also informed the suppliers that had not been selected. The suppliers that were competing for a contract within the top management recruiting category were informed that they were not considered good enough to be assigned the contract and that a new competition would take place.

The purchasing process in Case 1a was concluded with the selection of suppliers for the parallel frame agreement relative to recruiting services. However, an additional phase is needed to arrive at the final supplier in a particular assignment or project. While it is beyond the scope of Case 1a, additional interviews were conducted in RedOrg to arrive at an in-depth

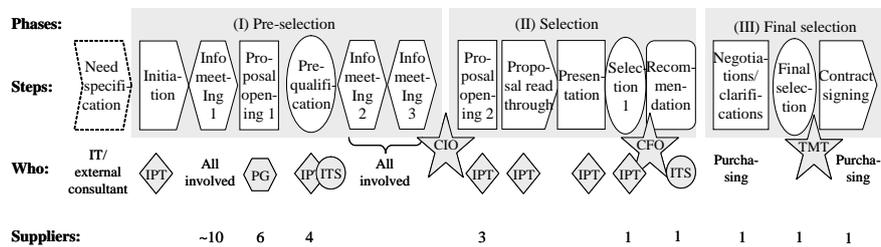
understanding of the processes related to selecting suppliers from the parallel frame agreements. The insights gained from these interviews are presented later in this chapter.

**Case 1b: IT-consulting services**

Case 1b concerned a large IT project regarding the implementation of a solution within the firm. Thus, rather than selecting a set of firms that would be able to meet the demands of RedOrg within a certain area for the 2-4 coming years, as in Case 1a, the selection concerned the solution to a specific problem. RedOrg had frame agreements within the areas of IT system architecture and infrastructure, but not related to IT development. Thus, it was decided to run a separate competition for this particular project.

As with Case 1a, the process of the purchase was linear and aimed to be as rational and ‘transactional’ as possible. Overall, the process can be divided into the same three steps as the recruiting process: (I) pre-selection, (II) selection, and (III) final selection. An overview of the details of the process can be found in Figure 14-2. In the following, the details of each of the steps will be described.

*Figure 14-2: Selection process in Case 1b*



**Case 1b: (I) Pre-selection**

In the pre-selection phase, extensive work was done in RedOrg to specify the details of the required solution. In fact, this work was done by an external consultant over two months in co-operation with the IT-department and other relevant stakeholders in RedOrg, such as the information department. Before the listing on Doffin, a meeting including the core stakeholders of the initiative was held for final clarifications.

Following the meeting, the competition was listed on Doffin, translated and forwarded to the TED (Tenders Electronic Daily) database, which is the European database for public procurement. The selection procedure used was ‘competition with negotiation’ including a pre-qualification of relevant

suppliers. According to FOR-2001-06-15-616, IT-services are non-prioritized services and should be purchased based on public tendering. However, in accordance with § 4-2 c) intellectually based services that cannot be fully specified ex ante can be purchased based on the procedure 'competition with negotiation'.

As suppliers showed interest in the competition, they were sent a pre-qualification document. This document pointed out that 3-8 suppliers would be selected to compete for the contract based on a number of stated organizational, judicial, economic and financial qualification criteria, in addition to their technical qualifications and competence. The suppliers were asked for a number of different documents for RedOrg to be able to evaluate them. The documents that were evaluated are listed in Table 14-1 above.

Approximately one week after the competition had been announced, an information meeting was held by the project and purchasing management to inform the suppliers about the project. In the meeting, clarifications about the project were made and the suppliers were allowed to ask questions. An additional objective of the meeting was to reduce the number of proposals from very small firms that lacked the capacity and competence to compete for the project. Moreover, the call for proposals was sent out during the summer and some of the suppliers may have had difficulties mobilizing enough resources to be able to send in the required information to compete. 18 people were present at the meeting, but not everyone that was present introduced themselves and it was therefore difficult to keep track of the exact number of companies there. However, based on those that were introduced, approximately ten firms were present.

After the 37 day deadline for registering interest in the competition, six suppliers had asked to participate and submitted the documentation for pre-qualification. A meeting was held by the IPT to qualify the suppliers. Among the key criteria in the pre-qualification phase was solidity, which was seen as dependent on the economic and financial situation of the company, and whether they would be able to take care of RedOrg as a customer. In the meeting, however, the project owner moved well beyond the pre-qualification criteria and began by stating his opinions on all different types of criteria and made quick decisions about whom to exclude. Among others he wanted to exclude suppliers based on the fact that they had extensive licensing costs involved in their solution. The purchasing representative had to remind the decision makers that the qualification should be based primarily on the criteria as formulated in the qualification document. Based on the qualification of the IPT group, two suppliers were disqualified. The reasons given for the disqualification were the economic situation of the firms, their capacity and their ability to understand the

magnitude of the assignment. One of the other companies also had a weak economic position, but as it had extensive capacity and was already working for RedOrg, it was not disqualified. In the process of qualification, the IT steering committee, represented by the IT director at RedOrg, was consulted and agreed on the disqualification of the two firms.

The suppliers that were qualified were sent the competition document and given two months to send in a full proposal. In the document, the other qualified suppliers were listed. The complexity of the details of the needs specification implied that RedOrg decided to hold two information meetings in the process while the suppliers were working on their proposals. One meeting was held a week after the competition document had been sent out. The second meeting was held just a couple of days before the proposal was to be handed in. In the meetings, suppliers could ask questions. However, as the different suppliers were competing for the same contract, it seemed that suppliers were very conscious about the questions they asked. In fact, a very limited number of questions were asked and the questions formulated seemed relatively well thought through.

RedOrg used the time when the suppliers were working on their proposals to prepare for the evaluation of the different bids. In particular, the matrix that was to be used for evaluation was finalized based on comments from the purchasing manager, which pointed out that only those criteria that had been stated in the competition document should impact the final decision. In the matrix developed by the external consultant as part of the solution specification, a number of dimensions that were not mentioned in the competition document were included. This was changed before the evaluation.

Finally, there was a need for integration of the solutions proposed by the service supplier with the operation service provider (OSP) and the system integrator (SI). Thus, in some way RedOrg had to facilitate the communication between the OSP, SI and the suppliers working on the proposals. However, one of the key decision makers in RedOrg was afraid to make mistakes relative to these stakeholders in the process, as it was very costly to use OSP's and SI's time to support the suppliers' requests. In fact, it was likely to be difficult for them to handle all these requests. Thus, those suppliers that were not able to book slots with these stakeholders would be discriminated against. This was particularly true as one of the suppliers represents the same firms as the OSP and the SI. As a result, the issues concerning integration were postponed until only very few suppliers remained as viable alternatives.

Case 1b: (II) Selection

In the selection phase each of the proposals sent in by the suppliers was evaluated. This was done in three steps: (i) proposal opening, (ii) presentations, (iii) selection 1, and (iv) recommendation.

*(i) Proposal opening*

Three proposals were handed in before the deadline and officially opened by representatives from the project group to check that all necessary documentation was included. While a fourth supplier had been qualified, this company did not deliver a full proposal. All three delivered proposals were accepted for evaluation and it was decided that all the suppliers would be invited for a presentation.

*(ii) Presentations*

Each of the suppliers that had handed in a proposal was invited for a two hour presentation to address the solution and how it would be implemented. The project owner, purchasing and the IT-manager took part in the presentations in which the technicalities of the solutions were presented and discussed.

*(iii) Selection 1*

Based on the supplier presentations, the IPT met to summarize their perceptions of the presentations, to exchange ideas about potential early results in the project and to plan for the completion of the purchasing process to secure a contracted supplier. The evaluation of the three different suppliers that had handed in a proposal was relatively straightforward and it seemed clear to the IPT which firm was to be assigned the contract. Even so, their decision had to be formalized and evaluated by the IT-steering committee. The information required for the steering committee concerned the process, the specifications, the evaluations and desired achievements. Thus, in a follow up meeting, the evaluation was detailed by going through all the different criteria, rating each item from 1-100 points (1-100%). This evaluation showed that while the best supplier got a rating of 62, the other suppliers were evaluated at 47 and 27.

*(iv) Recommendation*

Following the evaluation, a recommendation was sent to the IT-steering committee for consideration. In this document the suppliers were rated from one to three. The recommendation was accepted by the IT-steering committee and negotiations were initiated.

Case 1b: (III) Final selection

The final selection consisted of two main phases: (i) negotiations including clarifications and (ii) final selection and contract signing. In terms of

negotiations, RedOrg had decided before the evaluation of the suppliers only to negotiate with the supplier listed as number 1 to save time – not only for itself, but also for the OSP and SI. The negotiations primarily concerned service level agreements and required adjustments following changes in the solution. However, while negotiations were conducted with only one supplier, the other two suppliers were not discarded as potential alternatives until all clarifications were made with the number 1 supplier. After the negotiations and clarifications were completed, a final selection was made and the contract signed approximately three weeks after the supplier presentations. In this process the recommendation for which supplier to choose was evaluated and accepted by the top management team (TMT).

#### **14.2.2 Case 2 in YellowOrg**

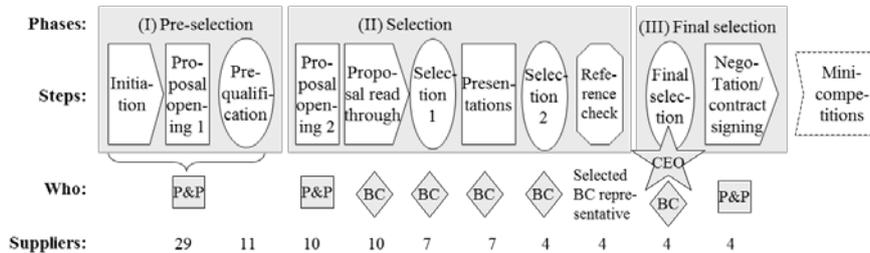
YellowOrg was a large governmental agency with more than 1000 employees distributed across Norway. The agency was established based on the integration of national and locally governed agencies. The complexity of YellowOrg was considerable and this was one of the reasons for hiring consultants. In fact, the establishment of the frame agreement concerned the integration of the organization. However, while there was considerable complexity in the organizational structure, YellowOrg had a relatively small head office and central administration, a low level of formalization and limited complexity in its decision making structures.

Case 2 concerned the selection of suppliers for a frame agreement on consulting services within organizational development and governance, within leadership development, and within knowledge governance and development. The procedure used in Case 2 was, as with the other cases presented above, ‘competition with negotiation’. The service purchased was defined as an intellectually based service which cannot be fully specified ex ante and for which ‘competition with negotiation’ can be used (FOR-2001-06-15-616 § 4-2 c). Included in this process was a pre-qualification round used to select suppliers that were sent the competition document. In turn, the selection was done based on the proposals and a presentation. In the end, four suppliers were selected for the frame agreement. Thus, as in Cases 1a and 1b, the process could be separated into a I) pre-selection, II) selection and III) final selection phase. An overview of the process is shown in Figure 14-3.

##### **Case 2: (I) Pre-selection**

The pre-selection can be separated into three different phases: (i) initiation, (ii) proposal opening, and (iii) pre-qualification. Each of these phases will be described in the following.

Figure 14-3: Selection process in Case 2



*(i) Initiation*

The selection process was initiated based on the development of a competitive document written by the project owner, with input from the buying center members from personnel. A consultancy had been used in the process of setting in progress the initiatives on which this document was built, but the firm had not written the document and it participated in the competition.

The competition was noted on Doffin and suppliers were given two months to show interest by submitting detailed information required for qualification. An overview of the documentation can be found in Table 14-1 above.

*(ii) Proposal opening 1*

A total of 29 companies submitted proposals to be considered for the pre-qualification. These proposals were opened by the project manager and the purchasing manager. Of these companies, two were lacking some of the required documentation and were eliminated.

*(iii) Pre-qualification*

Next, the remaining 27 proposals were evaluated by the project owner in cooperation with the purchasing representative to decide on those suppliers that should be given the opportunity to compete for the project. Based on their evaluation, eleven suppliers were asked to compete. While the initial notification of the competition had pointed out that 3-10 suppliers would be invited to compete, the eleventh company was in fact a sub-supplier to one of the other ten players and was therefore added to the list. In turn, the competition document was sent out to all 11 applicants.

Case 2: (II) Selection

After the suppliers had developed their proposals, they were evaluated by YellowOrg in four steps: (i) proposal opening 2, (ii) selection 1, (iii) presentations, (iv) selection 2, and (v) reference checks.

*(i) Proposal opening 2*

YellowOrg received ten full proposals for the competition. The supplier that was a sub-supplier to another company had decided to only hand in a proposal as a sub-supplier. The proposals were opened by the project manager in charge of the project and the purchasing manager. In turn, the proposals were distributed to the members of the buying center who were asked to read through the material and make an individual evaluation before the evaluation meetings.

*(ii) Selection 1*

An initial meeting was held in the buying center to decide whether all the suppliers that had submitted a proposal should be invited to present. In the process of determining this, the purchasing manager pointed out that all the suppliers should be invited for a presentation unless it was unrealistic that they would get the assignment. Based on a loose discussion, the buying center decided that three suppliers should not be invited for a presentation. These suppliers were notified by the purchasing manager. The remaining seven suppliers were asked to present during the following two weeks.

*(iii) Presentations*

The presentations were structured similarly across all the suppliers. First, the project manager at YellowOrg briefly presented the organization and those representing YellowOrg in the meeting. In turn, the suppliers had around one hour to present themselves and the proposal with very limited questions and comments by the YellowOrg representatives. Finally, half an hour was set aside for questions. The suppliers approached the presentations differently. Whereas some suppliers chose to present the proposal using PowerPoint, others positioned it as an across the table conversation with no slides and limited predefined structure. The buying center took a few minutes after each presentation to discuss what they had heard and their impression of the company.

*(iv) Selection 2*

After all the presentations, the buying center met to discuss which of the suppliers that was best suited to win the contract. First, the center had a general discussion and then looked in detail at each of the suppliers to determine which ones YellowOrg should integrate into its frame agreement. Throughout the selection meetings a document specifying all the positive and negative sides of each supplier was developed. In making the evaluations, it was not just the quality of each supplier that was considered. The buying center also gave thought to which combination of the selected suppliers would together be able to fulfill the needs of YellowOrg. Based on the meetings and the documents, the group chose three suppliers. In addition there was one supplier that was more uncertain and dependent on the

perceptions of the CEO – which was taken into account in the reference checks.

*(v) Reference checks*

As two of the four final firms participating in the competition had recently been used by YellowOrg, external references from other buyer firms were not checked. For the two ‘new’ firms, external reference checks were made by calling previous users of the relevant firms listed by the suppliers. Each of the references was asked about their experiences and opinions about the supplier firm. In particular, the degree to which they were able to co-operate, listen, develop confidence in the organization, understand the situation, identify problems and deliver on time were key points.

For the firms that YellowOrg had used recently, internal references were checked. These internal references seemed much more general in nature than the external references and were primarily based on developing a general understanding of whether the suppliers had delivered according to expectations.

Case 2: (III) Final selection

The final selection was made in a third and concluding meeting. This selection was based on the document developed in the two previous evaluation meetings. Additionally, the reference checks were used as a final reality check. All the external references were very positive towards the two ‘new’ suppliers. In terms of the internal references, the group had conflicting views on whether the past experience was good or bad for one of the suppliers. However, as the CEO wanted the particular company, it was awarded a frame agreement contract.

Finally, a meeting was arranged with the four selected suppliers to negotiate and sign each contract – which was the Norwegian Government’s standard contract for consulting services.

As pointed out above relative to Case 1a, the contract signing of the frame agreement did not represent the final selection of suppliers for particular assignments. In addition to the frame agreements, selection for assignments still had to be made from among the various suppliers on the frame agreement. This selection procedure will be addressed in the across firm interviews.

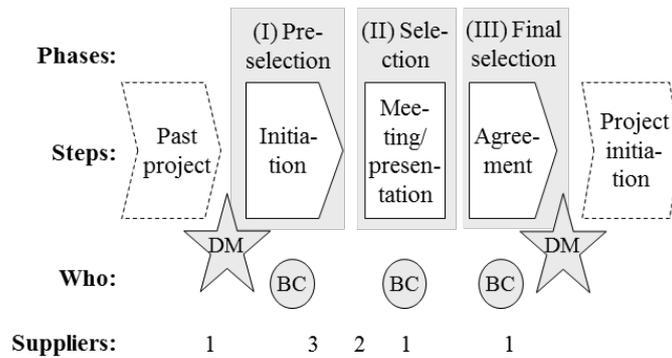
**14.2.3 Case 3 in BlueOrg**

BlueOrg is a large Norwegian organization with more than 20 000 employees and a number of business divisions. As a publicly traded

company, it has extensive policies and procedures that comply with The Sarbanes-Oxley Act (SOX). During the period that the case was observed, the CEO was focused in particular on company oriented rather than division based thinking and on developing common functions and guidelines across the organization. The purchasing process had become increasingly formalized since the early 2000s.

Case 3 concerned the purchase of a project related to an analysis of the price sensitivity of the firm’s customers in a particular segment. As in the cases described above, the process in Case 3 can be separated into three main phases: (I) pre-selection, (II) selection and (III) final selection. Each of these phases will be described in detail in the following.

Figure 14-4: Selection process in Case 3



Case 3: (I) Pre-selection

In the past, a management consulting company, CircleCons, had been used repeatedly, without competition, across divisions and units in BlueOrg to carry out similar projects as the one initiated in Case 3. Based on this experience, the project manager in Case 3 got the ‘buy in’ of the divisional management to run a project. The initial thought of the project owner was that CircleCons was the obvious choice of supplier. However, to be able to get a reasonable price and alternative perspectives on the project it seemed important to consider alternative firms. In addition, the project manager pointed out that purchasing had to be consulted to determine whether more suppliers were needed. The result of this was that a total of three suppliers were contacted. Thus, a firm primarily focusing on IT-consulting services, SquareCons and another management consulting firm, TriangleCons, were asked if they were interested in the assignment. The IT-focused firm declined the invitation. In turn, CircleCons and TriangleCons were asked if

they were interested in a briefing on the project to get an understanding of what it was about. CircleCons was the first of the suppliers that was brought in for a briefing on the assignment. One person attended this meeting. Due to the extensive experience of the CircleCons representative in BlueOrg on identical projects, very limited time was spent on developing a common understanding of what was to be delivered. A buying center (BC) consisting of the project responsible and two business area managers in the same business unit of BlueOrg as where the assignment was being purchased participated in the discussions, presentations and evaluation. One of the other managers in the buying center has been a project responsible for a past project on pricing where CircleCons had been used.

About a week after the meeting with CircleCons, a briefing was held with TriangleCons. While TriangleCons had recently worked on a project within BlueOrg, this project was in a different area and the three representatives from TriangleCons tried to ask key questions to understand the need and agenda of BlueOrg relative to the particular project.

Following the briefings, both consulting firms were asked to submit a proposal within two weeks of the last briefing.

#### Case 3: (II) Selection

While the project manager initially favored CircleCons, the written proposals reduced this preconceived preference. To develop further insights about the proposals, TriangleCons was asked to present its proposal. In the presentation, the company came in with four people that would participate in the project. Among these people was a French expert on the particular type of analysis that was to be used in the project. The presentation by TriangleCons was well received by BlueOrg, and the price level of the firm was considerably below what was suggested by CircleCons. As a result, CircleCons was also asked for a presentation and presented their proposal around a week after TriangleCons.

In the presentation, CircleCons was represented by the same consultant as in the briefing. In addition they brought in a former professor from an American university who specialized in the type of analysis relevant to the project. He was currently working on a project on pricing for BlueOrg abroad. The competitive nature of the process was pointed out up front through a statement by the CircleCons consultant: *'We see this as a competitive proposal. In a beauty contest it is always important to understand what is needed to be beautiful.'* Their way of trying to be beautiful was to focus primarily on the analysis in addition to competitive benchmarking and include organizational implementation as an add-on at the end of the project.

### Case 3: (III) Final selection

Following the two presentations, the buying center, excluding the owner of the last project that had used CircleCons, met to discuss the pros and cons of each of the suppliers and their presentations. The purchasing representative also took part in this meeting. The project manager let the other core group participant who was present start the meeting, to limit the influence of his own preferences. This participant preferred TriangleCons over CircleCons because he liked its approach and solution better. He also pointed out that it seemed that TriangleCons was willing to invest in the project and offered the project at half the price of CircleCons. The project owner was of a somewhat different perception. He would have preferred CircleCons if its price had been similar to TriangleCons. However, since there was such a large price difference, the difference in competence and solution offered was not significant enough to justify the higher price. In essence, CircleCons would have been preferred for the assignment based on its experience and competence. However, based on the extensive price difference between the companies, TriangleCons was preferred. As an input to the price negotiations by purchasing, the indifference between the two suppliers was determined to be around NOK 600 000. If CircleCons were to lower its price so that it was only NOK 600 000 more expensive than TriangleCons, then CircleCons would be selected.

After the final evaluation meeting, purchasing made contact with each of the two consultancies to ask if they were willing to lower their price. CircleCons did not want to change its price at all. However, TriangleCons was in fact willing to lower its offer a couple of percentage points. The difference between the prices of the two suppliers therefore became even greater as a result of the negotiations, and TriangleCons was chosen as the supplier for the assignment in BlueOrg.

#### **14.2.4 Summary of insight from in-depth cases**

The in-depth cases were mapped according to specific process steps. A summary of this mapping can be found in Table 14-2. Based on the four cases, two main types of selection process have been identified. First, there are processes that lead to the selection of a supplier for a particular assignment. Examples of such processes are Cases 1b and 3. These types of purchasing process can be done through direct selection or based on a competition. Secondly, there are processes that involve pre-selection of multiple suppliers in the form of a parallel frame agreement. Examples of such processes are Cases 1a and 2. In the case of parallel frame agreements, the process consists of two phases: the selection of the suppliers for the frame agreement and selection among suppliers in the frame agreement. In

the following, each of these processes will be described briefly. In particular (A) assignment based and (B) parallel frame agreements will be looked at.

Table 14-2: Overview of selection processes in the in-depth cases

Process phase	Process sub-phase	Case 1a: RedOrg Recruiting	Case 1b: RedOrg IT- consulting	Case 2: YellowOrg Management consulting	Case 3: BlueOrg Management consulting
<b>Need-specification</b>		x	x	x	(x)
<b>Pre-selection</b>	<b>Initiation</b>	x	x	x	x
	<b>Information meeting</b>		x		
	<b>Proposal opening</b>	x	x	x	
	<b>Pre-qualification</b>	x	x	x	
<b>Selection</b>	<b>Information meeting</b>		x		
	<b>Proposal opening 2</b>		x	x	
	<b>Proposal read through</b>	x	x	x	x
	<b>Selection 1</b>	x	x	x	
	<b>Presentation</b>	x		x	x
	<b>Selection 2</b>	x		x	
	<b>Recommendation</b>		x		
<b>Final selection</b>	<b>Reference check</b>			x	
	<b>Presentation/negotiation</b>	x			
	<b>Negotiation/clarification</b>		x		
	<b>Final selection</b>	x	x	x	x
	<b>Negotiation/clarification</b>			x	x
<b>Initiation of assignment</b>			x		x
<b>Selection for assignment</b>		x		x	
<b>Contract signing</b>		x	x	x	x

(A) Assignment based selection

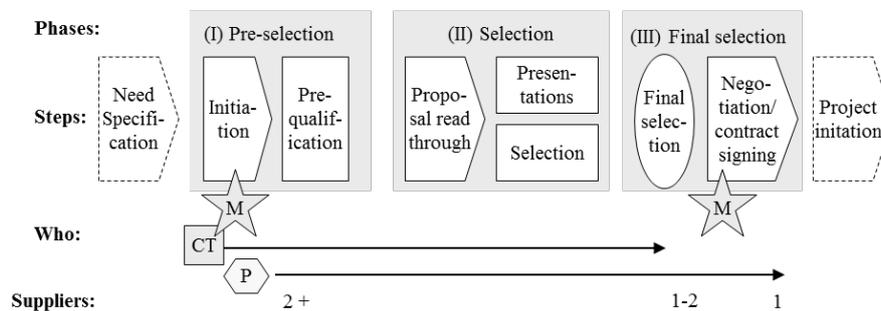
The empirical material presented above shows that assignment based selection can be separated into two main categories: (1) competitive selection and (2) direct selection. Each of these will be treated in the following.

(1) Competitive selection

Cases 1b and 3 both use a competitive approach to arrive at a supplier for a given professional services. The process of competitive selection can be modeled as illustrated in Figure 14-5. In addition to the process steps, the Figure also illustrates the degree to which management (M), the core team (CT) consisting of stakeholders of the selection, and purchasing (P) were involved. Not all steps were included for each of the competitive processes, but this model could function as a baseline for these selection processes. Both cases were initiated with the specification of the need and a decision by management and an accompanying budget allowing both client organizations to go ahead with the initiative. The core team of the initiative and purchasing were involved in the initiation phase. The competition in

Case 3 in BlueOrg was limited to three suppliers, and the pre-qualification of suppliers was done as part of the limitation of suppliers that were invited. In Case 1b in RedOrg, the competition was initially open to anyone that was willing to participate. In this situation, RedOrg used a pre-qualification phase. All suppliers were asked to submit a particular set of information and this information was used to pre-qualify those selected to participate in the final competition.

Figure 14-5: Generic competitive selection process



Following the pre-qualifications, proposals were submitted to the buyer and read through. In addition to the submission, presentations were made to present the proposed approach. A supplier was then selected. In Case 1b, the selection was done based on two rounds, where the actual selection was made in the first round, but the three final suppliers were kept in the loop until the negotiated contract was signed with the final supplier. In Case 3, there were only two competitors and there was only one round of selection. In this round the final negotiation was done as part of the selection. After the final negotiation and selection the contract was signed and the assignment initiated.

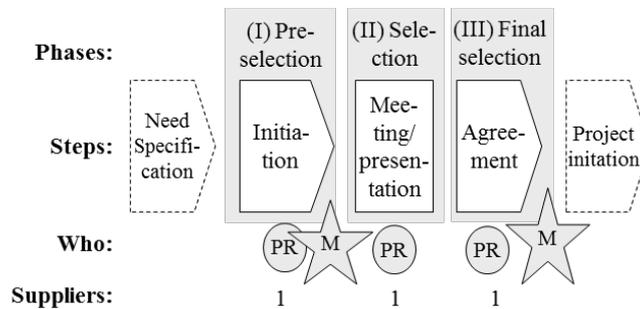
(2) Direct selection

Direct selection means that a supplier that the buyer perceives to be qualified is contacted directly without competition. Direct selection was not observed overtly in any of the cases. However, interviews related to the cases showed that direct selection had been used in the processes immediately preceding Cases 2 and 3. In particular, it was used in BlueOrg in previous projects on pricing, and in YellowOrg for management and organizational consultants to initiate the integration of the new organization.

The process of direct selection is presented in Figure 14-6, where those involved are primarily management (M) and the individual(s) responsible for

the project (PR). Purchasing has only a limited role in these processes. The process in both identified cases started with the identification of a need by the organization. In turn, an initiative was started by the PR or by management to determine what type of service or competence was needed. The decision on which supplier to contact was taken by one or a limited number of people in the buying firm. In turn, economic frames were given from relevant management. The supplier was contacted and a meeting arranged to clarify what was needed. In turn, an agreement was reached. Thus, the process was very brief and did not involve more suppliers.

Figure 14-6: Generic direct selection process



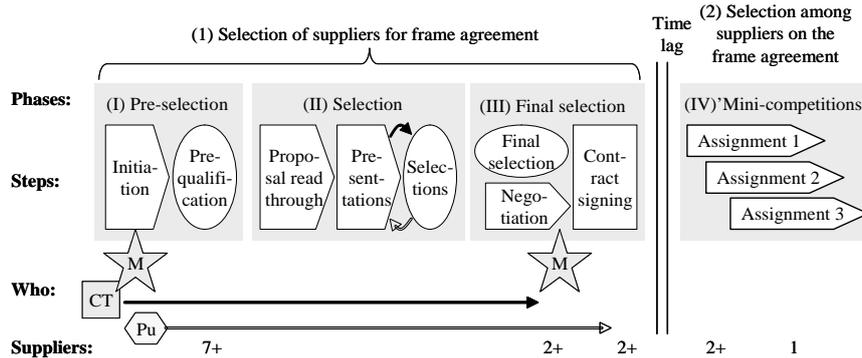
(B) Parallel frame agreements

Regulation in the public sector is the same for particular assignment purchases and for frame agreements. Thus, the process typologies of competitive assignment selection and selection for frame agreements in the public sector are similar. However, an important difference between these different processes is that while the purchase of a particular assignment is likely to end with the selection of one supplier, the parallel frame agreements demand further selection among the alternative suppliers that have a frame agreement. Thus, in the case of parallel frame agreements, the selection process involves two stages: (1) the selection of suppliers with which a frame agreement is signed and (2) the selection among the suppliers in the frame agreement. The process of parallel frame agreements is illustrated in Figure 14-7 on the next page.

In the public sector these agreements can be established based on open or limited bidding where the companies do not communicate with the buyer, or based on competition with negotiation where the supplier presents to the buyer and negotiates on price. In Case 1a in RedOrg and Case 2 in YellowOrg the exception in FOR-2001-06-15-616, §4-2 c) on knowledge intensive services was used and a negotiated process applied. Competition

with negotiation can be done with or without a pre-qualification. Case 1a did not include a separate round of pre-qualification and full proposals were handed in by all those willing to compete for the agreement. In Case 2 suppliers were selected for the competition based on a pre-qualification. In turn, the qualified suppliers received the documentation needed to participate in the competition. In both instances the selection after pre-qualification was done in more than one round, indicated by the curved arrows in Figure 14-7. After management had sanctioned the selected suppliers, the final selection was done in parallel with the negotiation and gathering of internal and external references. The contracts were then signed. The objective in the case of parallel frame agreements is not to find individual suppliers that are suitable to undertake a particular task. Rather, it is to find a combination of suppliers that together could fill a given buyer need. Thus, selection is based not only on the bidding by competitors, but also on the existence of complementors, which can be defined as a combination of firms that is able to meet the needs of the buyer.

Figure 14-7: Generic frame agreement selection process



While the in-depth cases gave indications about the process typologies, more research is needed to understand (1) the variation across processes within the private sector and (2) the selection among suppliers in a frame agreement. This information was sought through an extensive number of interviews with buyers and suppliers.

### 14.3 Interview based data

The interview based information can be separated into two main categories: buyer interviews which include interviews within and across firms and service provider interviews. This data will be used in the following to probe and develop the categories of the above proposed typology. Specific areas in which the data will be used to explore and probe in the following are, as noted above:

- (14.3.1) Purchasing processes in the private sector
- (14.3.2) Selection among suppliers in parallel frame agreements within the public sector

### **14.3.1 Purchasing processes in the private sector**

The within and across-firm interviews in the private sector gave additional insight into the purchasing process typology developed from the cases and its relevance in the private sector. Additionally, these types of processes were probed relative to the service provider interviews. The findings from the (A) buyer and (B) service provider interviews will be presented in the following.

#### *(A) Buyer interviews*

In the within and across firm interviews a total of 67 purchasing processes were described. A detailed overview of these processes can be found in Appendices 3 and 4. These processes suggest that APSs are selected in different ways across firms. However, there are some commonalities that make it possible to suggest a typology of selection processes. As within the public sector, a main distinction in the private sector can be made between: (1) supplier pre-selection, which is the selection of a pool of suppliers, and (2) the selection of supplier for a particular assignment. Both the pre-selection and the assignment selection can be done directly or based on a competition. These different processes will be described in the following.

#### (1) Supplier pre-selection

Supplier pre-selection is represented by the single or parallel frame agreement in the public sector. This separate process of pre-selection can also be found in some of the cases in the private sector. Such pre-selection includes the selection of one or more suppliers that are intended to be used in future assignments within a particular area of services. Examples are case F and K in the within firm interviews and cases 1, 2, 8, 13, 18, 21, 22, 24-27, 31, 33-35, 37-40, and 43 from the across firm interviews.

The pre-selection can be based on a competition, as typically done in the public sector. An example of this can be found in Case 13. A competitive pre-selection leads to the future use of one or more suppliers from a given set. Alternatively, the pre-selection is based on the direct selection of partner firms. This selection could be based on an ex ante relationship which led to an unwritten understanding within the buyer firm that the particular firm or firms should be used for certain types of assignment. Examples of such cases are F in the within firm interviews and Cases 1, 2, 8, and 18 in the across firm interviews. Direct selection could alternatively be based on an understanding that a firm is superior in its area and should be used by the

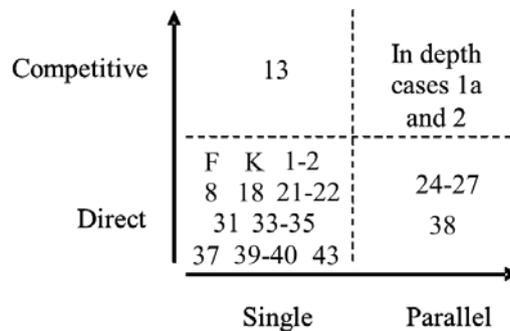
buyer firm for particular types of assignments. Examples of such pre-selection can be found in Cases 21 and 34.

In addition to the distinction between competitive and direct pre-selection processes, the pre-selection can either be done to find one supplier or it can be done to find a set of suppliers within a given area. Thus, the pre-selection can be characterized as single or parallel. Examples of single firm pre-selection are Case F in the within firm interviews, and Cases 8, 18, 22, 31, 34, 37, and 43 in the across firm interviews. Most of these cases concern legal services. To the degree that a single firm is selected, the selection for the particular assignment will be direct. Thus, to the degree that a buyer firm has a long-term relationship with a particular APS, the pre-selection as well as the selection for the assignment is direct and relational.

Finally, the pre-selection processes can be separated in terms of formality. While some of the pre-selection agreements are very formal, such as contract based frame agreements, others are more informal and constitute relational implicit non-written mutual commitment. As pointed out by a leading partner of a major strategy consulting firm: "...a frame agreement is in a way...a formalized relationship". Examples of highly formalized pre-selection processes can be found in Cases 13 and 38. More implicit relationally based agreements can be found in Cases F, 1, 2, and 25-27.

The identified dimensions of the pre-selection: competitive versus direct, single versus parallel and formal versus informal are combined differently across cases. While competitive and direct processes can be both single and parallel, competitive processes are likely to be more formal and direct processes less formal. Thus, these two categorizations overlap to some extent. To capture the variation across processes therefore, a two-by-two matrix including the competitive versus the direct and the single versus the parallel processes is presented in Figure 14-8.

Figure 14-8: Overview of cases including pre-selection



Based on Figure 14-8 it seems that the pre-selection of APSs in the private sector is competitive only to a limited degree. This is different from the public sector where an increasing number of buyers choose to use competitive parallel frame agreements. Thus, direct approaches including the development of long-term single or parallel relationships seem to be more common in the private sector.

The pre-selection governs the selection of the supplier for the particular assignment and limits the diversity of processes used for the single assignment. For example, where a single supplier is pre-selected, it is a given that they will get the assignment. In cases where more suppliers are pre-selected, a competitive approach can be taken for a particular assignment. As pointed out by a leading partner at an international communication consulting firm: *“A frame agreement is nothing but... 'a licence to sell'.”*

However, in cases where one supplier is pre-selected by private buyers, selection could be ‘tested’ as particular assignments arise. An example of this was found in Case 3 in BlueOrg where the buyer organization had a relationship with and had pre-selected CircleCons in the past. Nevertheless, Case 3 was made into a competition to test the abilities and intentions of CircleCons. The same approach can be found in Cases 8 and 9 in the firm interviews. Other suppliers could also be used as supplements to the pre-selected supplier where special competence or capacity is needed. Examples of this can be found Cases 22 and 23.

While the pre-selection processes were identified in less than 25% of the cases in the private sector, the interviews only give knowledge of the instances where the pre-selection was made explicit. More implicit pre-selection taking place in the heads of the buyer representatives might be present in many of the other processes, but was not pointed out verbally in the interviews. In fact, explicitly competitive processes without pre-selection were only used in about 30% of the cases in the private sector to arrive at a supplier for particular assignments. The domination of direct selection processes in the private sector suggests that extensive pre-selection exists.

#### (2) Selection of supplier for the particular assignment

Selection of one or more suppliers for a particular assignment is also done based on a (a) direct or (b) competitive approach, as suggested based on the in-depth cases. However, the interview based information gives additional insight in terms of the differentiation across these types of processes and the degree to which (c) these different processes are in fact combined. The details of the different types of selection processes will be presented below.

(a) Direct selection processes

Direct approaches to purchasing imply that a supplier is used with limited or no involvement of other alternative suppliers. Based on the buyer interviews, three different direct approaches could be identified: (i) long-term relationships, (ii) knowledge based processes, and (iii) a combination of relationship and knowledge based in the form of experience based or embedded processes. Each of these processes will be discussed in detail in the following.

(i) Long-term relationships

In the case of long-term supplier relationships, the supplier is typically used for several years and an understanding exists within the buyer organization that the particular firm is to be used for the particular types of services. Thus, the supplier is pre-selected as well as selected for the assignments in a given area, as described above with relevant empirical examples. These types of relationship develop over time and involve a common history, trust and commitment. They are built on emotional as well as rational components.

(ii) Knowledge based processes

Knowledge based processes are typically embedded in time and resource limitations, which in most cases imply that the buyer is looking for a ‘good enough’ supplier to solve the particular task. In such cases, as pointed out by the SVP of Strategy in OrangeOrg, it could be too expensive to arrange a competition and a ‘good enough’ supplier is selected to optimize the cost-benefit of the assignment.

In other cases, the task or assignment is so strategic and important that the best competence available is essential to ensure the best delivery possible. Based on the knowledge of the particular problem and the supplier market – as a result of reputation, referrals or personal relationships – the best possible supplier with the best and most relevant experience is selected directly. Examples of such a situation can be found in Case E and G in PurpleOrg and Case P in GreenOrg.

Knowledge based selection can be proactive or reactive. Proactive processes can be found where the buyer takes the initiative and contacts the supplier. Alternatively, the processes can be reactive in the sense that it is the supplier that initiates contact. To the extent that there is a match in what is presented and the buyer’s need, the firm might be hired directly as in Case R in GreenOrg. This form of process can also be found in Cases 20 and 36 in the firm interviews. However, compared to the number of contacts made by PSFs as marketing, reactive buying is relatively rare.

(iii) Relationship and knowledge based processes

The insight gained from the interviews suggests that a separation between processes which results from single long-term relationships or that is based on the superior knowledge of the firm, is too crude. In fact, a number of cases illustrate that selections might be made based on a combination of both relational and knowledge based processes. In particular, two such types of process were identified in the data: the experience based and the embedded.

In experience based processes the direct selection is based on a positive direct experience with the supplier firm or a particular person within the supplier firm. This experience typically involves both knowledge and relationship components. Thus, while there might not exist a long-term relationship in terms of a mutual understanding of the continuation of the work, the experiences that the buyer has had with the supplier are so good that he wants to use the supplier again. An example of selection based on firm experiences is Case 33, where the experience of the buyer resulted in the re-purchase of the firm.

The supplier experience can in some cases make it difficult for the buyer to switch supplier. In cases where a project is an extension of work that the supplier has done in the past, the supplier can easily become embedded in the problem and the organization. An example of such a process can be found in Case S in GreenOrg. In such cases, the relational and emotional aspect are not as essential as in the cases of long-term relationships. Rather, the contextual knowledge that the supplier holds might at worst be irreplaceable and at best very costly to substitute. Under such conditions an extreme case would be where the PSF is so embedded in the buyer organization that using the particular firm is necessary for the buyer to get the work done.

(b) Competitive selection processes

Purely competitive processes were found in Cases A and C in OrangeOrg, H in PurpleOrg, and I, L, M, and Q in GreenOrg. Examples were also found in Cases 6, 7, 9, 10, 14, 16, 17, 32, 42, 45 & 46 in the across firm cases. The competitive processes typically start with information gathering by the buyers in an effort to select the suppliers that should be allowed to compete. This selection is similar to the direct knowledge based processes, where the buyer uses its network and knowledge of suppliers to identify those best qualified to undertake the task. In cases where there is more than one qualified supplier and there are resources to support the evaluation of more suppliers, a competition is initiated. Typically, 2-4 suppliers are asked to participate in the competition by submitting and presenting a proposal. Overall, the process through which the competition takes place is well captured in Figure 14-6.

In some of the processes the selection of supplier was primarily based on the value dimension of the supplier in the form of specialist competence and experience as well as the supplier's ability to satisfy the particular need of the buyer. Examples are Case C in OrangeOrg and Cases L and M in GreenOrg. However, in two of the processes – Case H in PurpleOrg and Case 7 in the across-firm interviews – the competence needed was so general and common across suppliers that the competition was primarily based on cost. However, in a dominant number of the cases both cost and value considerations were present and net value of benefits above the costs were considered. Thus, competitive processes can be separated on a continuum from value to cost. Case 3 in BlueOrg nicely illustrates the benefit versus sacrifice evaluation made by buyers in the sense that the buyer was willing to pay NOK 600 000 more for the supplier that was perceived to offer the highest value. While the processes of value and cost competition are very similar, the mechanisms underlying these processes are different, as discussed above.

(c) Combination of processes

The processes described within each of phases A and B must be considered to be mutually exclusive as they cannot be done simultaneously. However, this is not the case to the degree that the processes are carried out sequentially. For example, Case D in OrangeOrg illustrates how the competitive and direct processes can be combined for the same process of selection. Starting out, the organization intended to use a competitive process. However, as this process showed unsatisfactory results, a proactive direct approach was taken and the best known firm in the area was hired. Time was an essential reason for this change of process. Case R in GreenOrg also illustrates the combination of processes. While the firm proactively had selected 2-3 firms for a competition, a supplier that contacted them directly was selected to do the work.

*(B) Service provider interviews*

To further examine the above developed typology, it was used to categorize the processes identified in the service supplier interviews. An overview of this application of the typology can be found in Appendix 5. The overall structure of the typology seemed to fit the supplier descriptions of how services were purchased by buyers relatively well. Based on the supplier interviews, it appeared that the basic categories of the typology covered buyer processes relatively accurately. No new categories were brought forward by the suppliers.

However, the categorization of the statements from the supplier interviews into the buyer generated typology gave interesting new input to the

understanding of the processes relative to the following areas: (1) typical private firm purchasing process, (2) relationship orientation, (2) focus on value based competition,, and (4) proactive orientation. Each of these areas will be discussed briefly below.

(1) Typical private firm purchasing processes

One type of purchasing process was repeatedly mentioned across those professionals working with larger firms in the private sector. Across interviews and industries, suppliers described a process where buyer firms pre-select a small number of firms in a particular area. Typically, 2-3 suppliers are selected directly. In turn, the buyer firm learns to know them and use them where the firms have adequate competence. As pointed out by a leading partner at an international management consulting firm: *'...firms have two to three that they see as qualified, and that know them, in a particular area: strategy or large organizational change.'* Similarly, a partner at a major law firm points out: *'They can have a relationship to others. There is seldom exclusivity. They usually have a relationship to a limited number of firms.'* It was, however, pointed out that one supplier might have a stronger relationship than the others.

Thus, many private firm buyers seem to use parallel relationships – which could be referred to as a multi-sourcing strategy – in their purchasing of professional services. Most often the supplier firms are pre-selected directly and kept as long as the buyer company is satisfied with the services that they deliver. In some instances the existing group of pre-selected firms is tested by running competitions for particular, often larger, projects. While being less formal, this practice is relatively similar to the use of parallel frame agreements in the public sector. Service provider representatives mention that the use of more formal parallel frame agreements is also becoming more common in the private sector.

(2) Relationship orientation

Suppliers focus extensively on relationships in their description of buyer purchasing processes. They seem to assume that as a buyer returns to the firm for services, a relationship has developed. Also, the concept of a relationship is used by some suppliers in a very broad sense and to some degree incorporates referrals and reputation. This stands in contrast to the buyers who very often point to experience as a key reason for selecting a supplier. To the degree that the buyer is satisfied, the firm will use the same supplier again. However, the buyer is not as prone as the supplier to using the word relationship as the supplier, in describing the use of the positive experience in buying a similar service at a later point in time. Moreover, the experience does not make the customer faithful in the sense that there is any understanding in the buyer organization that the particular supplier should be

used again. Rather, the buyer is likely to use more suppliers and switch whenever it is assumed that another supplier may be better suited for a particular assignment.

Thus, while it is recognized by both buyers and suppliers that positive experiences are important for the development of a relationship, there is a difference in how they describe the nature of the development. While the buyers seem to be reluctant to use the word relationship to describe their purchasing processes, it seems that suppliers are prone to characterize repeating customers and customers they get based on referrals or reputation, as relational. This difference in terminology could be part of the reason why relatively few suppliers talk about direct experience based processes and direct knowledge based processes.

However, the emphasis on relationships among PSFs is not limited to a particular type of purchasing process. Rather, relationships are emphasized as essential independently of the purchasing process in place. While clients might intend to run a competitive process, many of the suppliers point to the superiority of the supplier's relationship as a reason for winning the contest. They also point to relationships as a pre-condition to being offered an opportunity to compete. Thus, they seem to recognize both the relationship effect routes as presented in the research model.

The suppliers also point to a major difference between the private and public sectors relative to the explicit use and importance of relationships. In the public sector, the suppliers point out that '*a competition is a competition*'. And while some buyers might use competitions to test the supplier to which they have a relationship, the buyers will switch if another supplier is able to meet the buyer needs better than the current supplier.

In the public sector, some suppliers claim there is frequent use of 'unreal processes', in the sense that competitions are announced, but that the services are in reality purchased based on relationships. A number of suppliers describe processes where they perceived that the relationship determined the choice of another supplier. However, they had very limited experience of instances where they had been preferred and where they had won contracts based on their relationships. Rather, they pointed to superior knowledge, experience and ability to solve the particular task as the reason for being selected. One exception is a partner of a recruiting firm, who elaborates on the relationship:

*'...One of those that we have a frame agreement with is a very very big firm. I have worked with the boss for 4-5 years and he just gave the message to purchasing that the process should be run, but he wants*

*[firm X]...That is an extreme case...Then the relationship becomes very important – because it is at the top executive level.'*

However, the suppliers selling to the public sector pointed out that in most instances the processes are real and the suppliers compete on equal terms. However, it is difficult for the suppliers to know which processes are real and which are not. A number of the suppliers competing in the public sector point out that they often do research before writing the proposal, to try to determine if relationships do exist and whether the relationships will impact the selection.

Also, a number of the APSF informants were dissatisfied with the use of frame agreements within the public sector. They pointed out that while they had been awarded frame agreements, they had never sold a project based on the agreement due to the existence of relationships with other suppliers that were repeatedly used.

### (3) Focus on value based competition

The fact that buyers frequently select suppliers directly based on a perception of the PSF's superior knowledge and experience was not emphasized by the suppliers. Also, PSFs did not to an extensive degree talk about competition based on a combination of cost and value. Rather, PSFs seem to emphasize competition primarily on value. This focus on value competition and lack of emphasis on direct knowledge based processes might suggest that suppliers perceive that there are more suppliers involved in a selection process than there actually are. Alternatively, they incorporate selection based on knowledge and experience as part of a value competition and not as direct selection where limited other suppliers were involved in the process.

### (4) Proactive orientation

Reactive purchasing processes were seen by the suppliers as applicable to a wider set of processes compared to the buyers. While buyers pointed to instances where reactive strategies were applicable in direct knowledge based processes, suppliers saw them as an important component of relationship based processes, where the relationship enabled the supplier firm to come up with solutions to buyer problems. The relationship thus enabled the supplier sales initiatives to result in more assignments where a relationship existed, compared to where the buyer did not know the supplier already and made 'cold calls'.

### **14.3.2 Selection among suppliers in parallel frame agreements in the public sector**

To develop a more in-depth understanding of the selection among suppliers in parallel frame agreements in the public sector, interviews were conducted with 13 informants across RedOrg. These interviews included the selection of 33 companies. A survey that included 23 additional informants within RedOrg was also done. Based on the interviews and the survey, 60 purchasing processes from the last three years were mapped. Information on the type of process used for selection was available for 44 of these processes. More than half of them included direct selection among the suppliers that were included in the frame agreements. Of the processes covered in the interviews, 60% of the direct selection was based primarily on arguments that the supplier had superior knowledge and the rest were relationship based.

For RedOrg, the frame agreement consisted of different service categories where frame agreements were made. An example of an area was 'leadership development' and another one 'organizational consulting'. In each of these areas 3-4 suppliers had a frame agreement. The interviews showed that the selection process among these companies was largely dependent on the composition of suppliers in each area of the agreement. For example, in some areas such as 'leadership development', each of the suppliers had particular skill sets which made them suitable for different kinds of assignments and tasks. Sending out invitations to all the suppliers for all kinds of projects did not seem like a suitable option, as all of the suppliers were specialists. Thus, in reality, the agreement with each supplier was a single frame agreement for smaller knowledge areas in which direct selection was used.

The practice of using the frame agreement is, however, very different across organizations. One of the three interviews conducted as part of the public sector across firm interviews illustrates this. In their organization, they made frame agreements with ten suppliers in each area. When a need arose, they sent out a request for proposals to all, asked them to submit a proposal, and these were evaluated based on quality and capacity.

A commonality across the cases where frame agreements were used was the objective to limit the efforts needed for selection in each individual case. However, the practice of selection across these different suppliers seemed to vary. At the point in time when the empirical data was collected, frame agreements were not covered by the law and no common judicial customs existed. This has been changed with the current Norwegian Public Procurement Act (FOR-2006-04-07-402, § 6-3), which proclaims that all

suppliers that are able to deliver the relevant services should be contacted. Also, there should be a sufficient timeframe for submitting a proposal, and suppliers should be selected based on criteria listed in the frame agreement contract. If no criteria are listed, the criteria used for the establishment of the frame agreement should be used. Even so, while the new law details the use of the frame agreement, the selection under the agreement is likely to be dependent on the size and composition of the categories of the agreement and include both direct knowledge based and competitive approaches. The only type of selection that seems to be excluded by the law is the purely direct relational one where there exists a parallel frame agreement. However, there are many ways in which relationships could be relevant even though the processes are strongly regulated. For example, knowledge of the buyer organization or particular types of knowledge that only a certain supplier has can be used as a selection criterion.

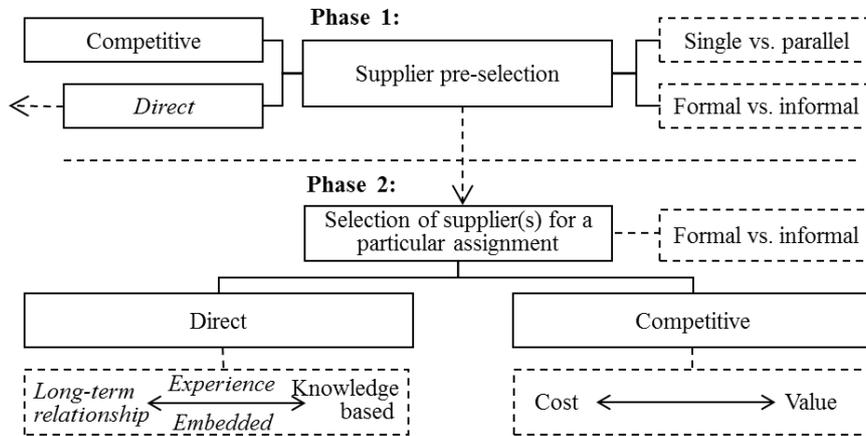
RedOrg had relatively strict guidelines in the organization to promote competition. Even so, four of the 13 buyers in RedOrg pointed to embeddedness, in the form of the integration of the suppliers into RedOrg, as an important reason for selecting directly and an argument for why other suppliers were not likely to be able to deliver the required services. This embeddedness is not very different than a relationship, but was considered a valid selection criterion. The use of the client-professional relationship as a selection criterion in the purchasing of APSFs across the private and public sector will be looked at in further detail in Chapters 16 and 17.

#### **14.4 Summary and typology of purchasing processes**

Based on the in-depth cases and interviews among buyers and suppliers of APSs, key dimensions of buyer purchasing processes for professional services were identified. First of all, processes can be differentiated based on the degree to which they include separate sub-processes for pre-selection and selection of particular assignments. Additionally, in each of these phases, there is a difference in the degree to which suppliers are selected directly or based on a competition.

Pre-selection of a smaller set of companies within different service categories is done in both the public and private sectors. In the private sector the typical pre-selection is done for 2-4 companies for each relevant area of services that the company needs. The example from the public sector illustrates that pre-selection is done for up to ten firms. While the pre-selection can be done either based on a competition or directly and formally or informally in the private sector, the regulation in the public sector demands that this selection must be done formally based on a competition and that an agreement must be established.

Figure 14-9: Overview of alternative selection processes



The use of pre-selection as a way to choose a supplier for professional services incorporates relational elements, as the buyer and supplier work together over time. This is true for both the public and private sectors. Pre-selection of a single supplier can be done in both sectors. This approach equals a single relationship strategy that is used in both sectors. The difference between the sectors is that the selection must be done formally through a competitive based selection in the public sector. If the pre-selection is done for more firms in the public sector, it is similar to a parallel relationship strategy in the private sector.

When it comes to the selection of a supplier for the particular assignments, the pre-selection influences how this is done to a significant degree. In particular, where a single supplier is pre-selected, this supplier is used for future assignments. In the case of pre-selection of multiple suppliers, the selection from amongst these suppliers is either done directly or based on a competition, as illustrated by the empirical cases above.

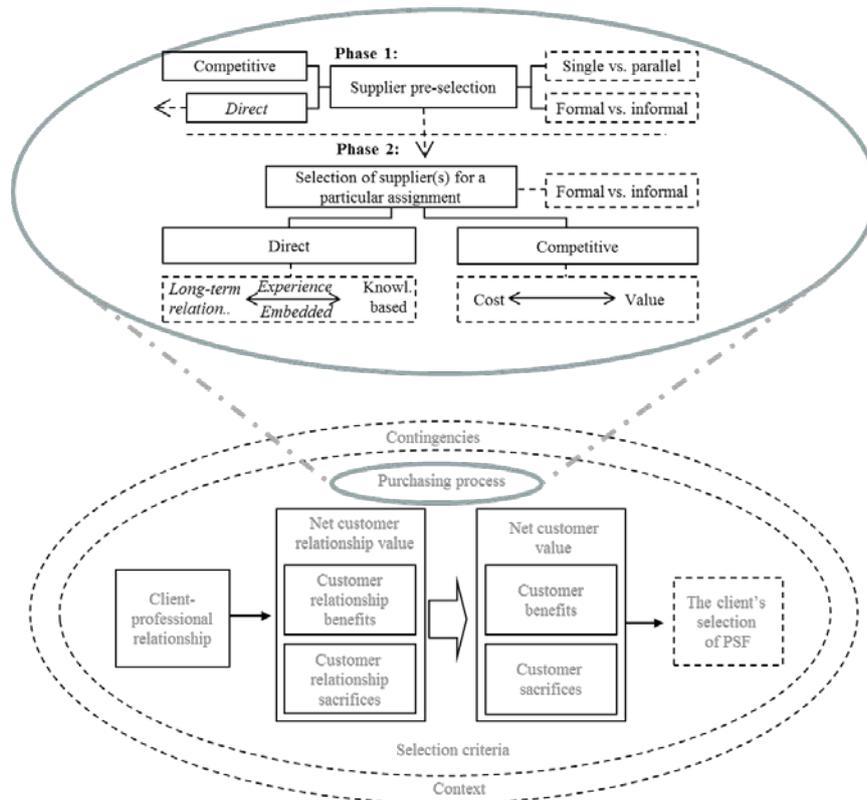
Based on the above presented empirical material, a general typology of purchasing processes for APSs is presented in Figure 14-9 above. The text in italic in the figure illustrates the options that are restricted by the regulation of purchasing within the public sector. An overview of the different processes applied for the selection of PSFs in the private and public sectors is shown in Figure 14-10 below.

Figure 14-10: Purchasing process typology in the public and private sector

Selection phase	Pre-selection	<ul style="list-style-type: none"> <li>• Competition based</li> <li>• Formal</li> <li>• Single or multiple frame agreement(s)</li> </ul>	<ul style="list-style-type: none"> <li>• Direct or competition based</li> <li>• Formal or informal</li> <li>• Single or multiple relationship(s) or frame agreement(s)</li> </ul>
	Assignment selection	<ul style="list-style-type: none"> <li>• Competition based: price and value</li> <li>• Direct: <ul style="list-style-type: none"> <li>• Under NOK 500 000</li> <li>• Knowledge based in frame agreement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Direct or competition based</li> <li>• Formal or informal</li> </ul>
		Public	Private

The key findings from the empirical material concerning the purchasing processes are integrated into the research model in Figure 14-11.

Figure 14-11: Integration of selection process typology into the research model

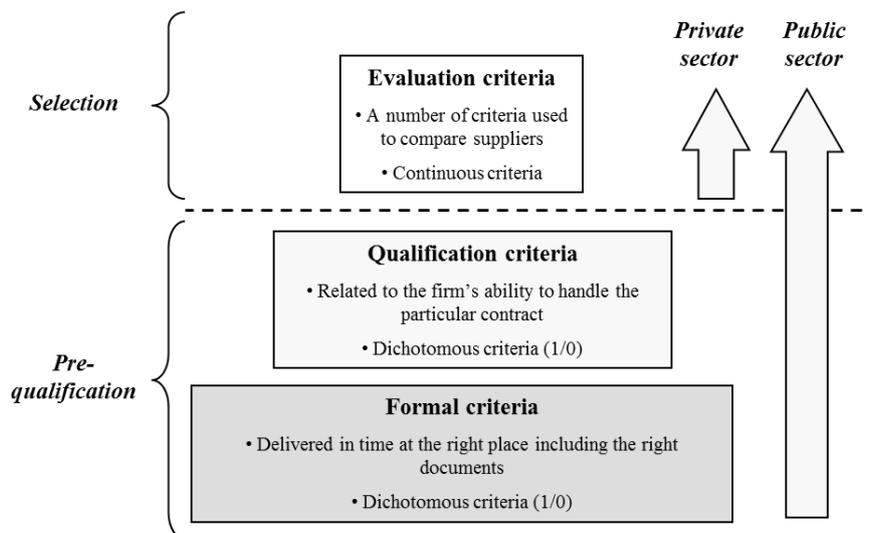


## Chapter 15: Client selection criteria

### 15.1 Introduction

The objective of this chapter is to develop an overall understanding of relevant and important client selection criteria used by buyers in selecting PSFs. As pointed above, client-relationships as selection criteria will not be treated in depth here as a separate chapter is dedicated to these criteria and how the impact selection. The cases from the public sector show that a top level distinction should be made between criteria that are used for pre-qualification and those that are used to evaluate the suppliers. The emphasis on formal pre-qualification criteria was also mentioned briefly by a few of the private sector informants, but was not identified as a common theme across cases and interviews. Figure 15-1 shows these different types of criteria. The focus of the research presented here is on evaluation criteria used for selection. Further details on pre-qualification criteria in the public sector can be found in Table 14-1 in Chapter 14.

Figure 15-1: Overview of different sets of selection criteria

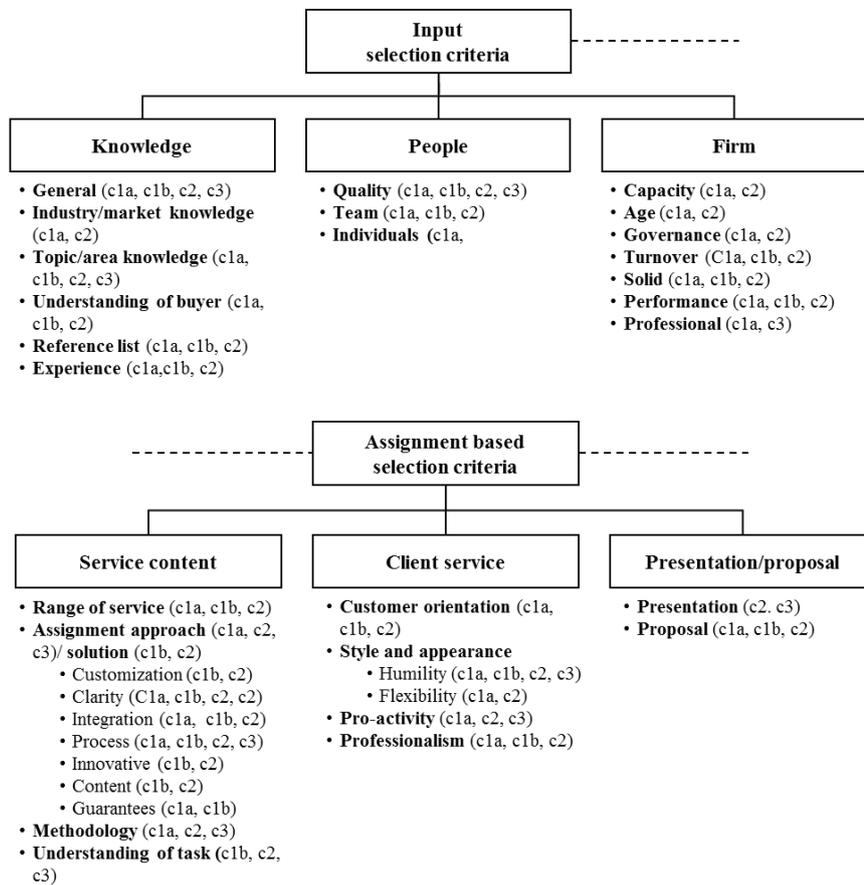


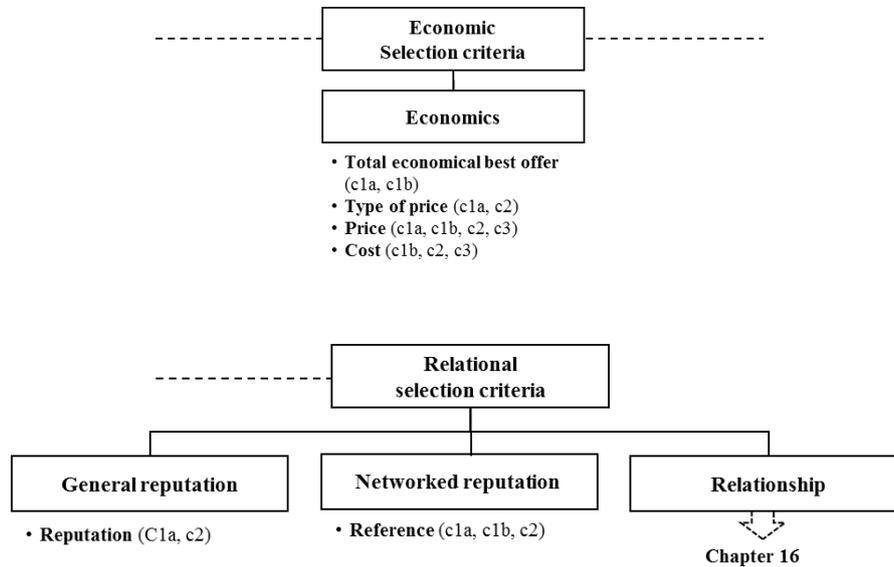
As in the previous section, analysis of the in-depth case studies is used as a starting point to develop a selection criteria overview. In turn, the relevance of the different concepts in the overview is tested through the insight from the buyer and supplier interviews.

### 15.2 In-depth cases

Based on the in-depth cases and by using a deductive as well as an inductive approach – as described in the methodology section – a typology of buyer selection criteria was identified. An overview of the key criteria identified can be found in Figure 15-2. The denotation c1a, c1b, c2, c3 reflects the case in which the criterion was identified. To limit the complexity of the treatment of the criteria in the figure, only those criteria that were found to be relevant in at least two of the cases are included. The selection criteria will be described in detail in the final section of this chapter, based on the insight from both the in-depth cases and the interviews.

Figure 15-2: Overview of identified selection criteria



*Figure 15-2 continued.*

### 15.3 Interview based data

The criteria categories identified in the in-depth cases were used as a starting point to categorize the criteria across the interviews. However, in the process of categorization, minor changes were made to the initial categorization scheme. An overview of the final categories of criteria and the frequency at which they appear in the non-case related interviews is presented in Table 15-1. Eleven main groups of criteria were identified, which consisted of various numbers of subcategories. These eleven different criteria were grouped into four main areas as in the literature review and the cases.

As the core properties of the exploratory categorization of selection criteria emerged, they were described using memos in Word. Based on this empirical insight, each of the criteria will be described in the following. All interviews were reanalyzed using the emergent categories shown in Figure 15-2 to ensure category consistency and that statements were not redundant. In the process of categorizing statements, efforts were made to identify categories that were distinct, to limit overlap. Going through the interaction effects and relatedness of the presented typology is beyond the limited scope of the research presented here. Some of the relatedness of concepts is addressed in the description of the different criteria below. Even so, the typology is exploratory and represents a starting point rather than a final understanding of buyer selection criteria.

Part V: Empirical findings

Table 15-1: Overview of criteria by frequency

Type of selection criteria	Interviews private (20)	Interviews public (21)	Buyer inter-views (41)	Interviews APSFs (30)	Total (71)
<i>Input based criteria</i>					
<b>Knowledge/ experience</b>					
General	55 %	33 %	44 %	73 %	56 %
Industry/market knowledge	60 %	14 %	37 %	47 %	41 %
Topic/area knowledge	65 %	14 %	39 %	33 %	37 %
Knowledge/ understanding of buyer	45 %	19 %	32 %	37 %	34 %
Experience	70 %	29 %	49 %	67 %	56 %
Studies/research	0 %	5 %	2 %	0 %	1 %
<b>People</b>					
People	35 %	33 %	34 %	30 %	32 %
Team	15 %	5 %	10 %	17 %	13 %
Particular individuals	55 %	19 %	37 %	33 %	35 %
<b>Firm</b>					
Capacity/size	15 %	57 %	37 %	30 %	34 %
Age	5 %	0 %	2 %	3 %	3 %
Governance	10 %	0 %	5 %	3 %	4 %
Turnover	5 %	5 %	5 %	0 %	3 %
Solidity	0 %	5 %	2 %	0 %	1 %
Performance	0 %	0 %	0 %	0 %	0 %
Professional	10 %	5 %	7 %	7 %	7 %
<i>Assignment based criteria</i>					
<b>Service content</b>					
Range of service	5 %	0 %	2 %	10 %	6 %
Understanding of task/assignment	15 %	29 %	22 %	27 %	24 %
Approach/solution	30 %	19 %	24 %	47 %	34 %
Methodology	20 %	33 %	27 %	40 %	32 %
Customer orientation	25 %	14 %	20 %	20 %	20 %
Customization	35 %	29 %	32 %	13 %	24 %
Process	10 %	5 %	7 %	27 %	15 %
Clarity	0 %	5 %	2 %	3 %	3 %
Integration	5 %	0 %	2 %	0 %	1 %
<b>Client service</b>	5 %	0 %	2 %	0 %	1 %
Humility	10 %	5 %	7 %	13 %	10 %
Flexibility	35 %	5 %	20 %	3 %	13 %
Other style and appearance	40 %	10 %	24 %	7 %	17 %
Pro-active	25 %	14 %	20 %	10 %	15 %
Professionalism	0 %	0 %	0 %	7 %	3 %
<b>Presentation/proposal</b>					
Proposal	0 %	5 %	2 %	10 %	6 %
Presentation	5 %	0 %	2 %	0 %	1 %
<i>Economically based criteria</i>					
Price	50 %	71 %	61 %	73 %	66 %
Type of price	5 %	0 %	2 %	3 %	3 %
Cost	5 %	10 %	7 %	7 %	7 %
<i>Relational based criteria</i>					
<b>Reputation</b>	40 %	5 %	22 %	67 %	41 %
<b>References</b>	65 %	43 %	54 %	47 %	51 %
<b>Recommendations</b>	30 %	5 %	17 %	7 %	13 %

Table 15-2: Overview of criteria by source

Criteria set	Literature	Cases	Interviews
<i>Input based criteria</i>			
<b>Knowledge/ experience</b>			
General	1	1	1
Industry/market knowledge	1	1	1
Topic/area knowledge		1	1
Knowledge/ understanding of buyer	1	1	1
Experience	1	1	1
Creativity	1		1
Skills	1		
Studies/research	1	1	
<b>People</b>			
People	1	1	1
Team	1	1	1
Particular individuals	1	1	1
<b>Firm</b>			
Capacity/size	1	1	1
Age	1	1	
Governance	1	1	
Turnover		1	
Solidity	1	1	
Performance	1	1	
Professional	1	1	
<i>Assignment based criteria</i>			
<b>Service content</b>			
Range of service	1	1	1
Understanding of task		1	1
Approach/solution	1	1	1
Methodology	1	1	1
Customer orientation	1	1	1
Customization		1	1
Process		1	
Clarity		1	
<b>Client service</b>			
Humility		1	1
Flexibility		1	1
Other style and appearance	1	1	1
Pro-active	1	1	1
Professionalism	1	1	
<b>Presentation/proposal</b>			
Proposal	1	1	
Presentation	1	1	
<i>Economically based criteria</i>			
Price	1	1	1
Type of price	1	1	
Cost	1	1	
<i>Relational based criteria</i>			
<b>Reputation</b>	1	1	1
<b>References</b>	1	1	1
<b>Recommendations</b>	1	1	1

Among the identified criteria, price was the most frequently mentioned. In turn, knowledge and relationship were mentioned as important, followed by references and reputation. If one compares buyers in the public and private sectors, they all appear to be concerned about price, but knowledge based criteria seem to be more extensively evaluated in the private compared to the public sector. In particular, experience and contextual knowledge of industry, firm and task are very often pointed out in the private sector. Moreover, particular individuals and client service components are more frequently mentioned in the private sector. A number of the private buyers mention reputation as relevant. Firm size and price are pointed out more often among public buyers. Thus, it seems that private buyers are concerned with the quality of the services, while the public sector buyer is more concerned that the PSFs are big and low priced. Reputation is considered far more important by PSFs than the buyers. However, this is different across public and private buyers, where private buyers are more concerned with reputation and recommendations than public buyers.

In addition to comparing the frequency across the different informants' criteria identified in the literature review, the cases and the interviews are compared in Table 15-2. This overview shows that the empirical study has made one important contribution by identifying the following criteria as relevant in the selection of APSs, beyond what was suggested in previous literature: (1) Topic knowledge, (2) Customization, and (3) Flexibility and humility. At the same time, the study has found limited relevance of (a) Studies and research, and (b) Firm characteristics, including governance and turnover, beyond the public sector. Age was also not mentioned as directly relevant, but extensively emphasized as a source of reputation. Additionally, in the literature and case studies, professionalism was mentioned both relative to the firm and the particular services. In the interviews, professionalism was not identified as a particular category relating to the firm or the service. Rather, it seemed to be integrated into the evaluation of client service in terms of style and appearance and client services, and into the firm's characteristics such as age, solidity, reputation and relationships. Thus, it seemed that to buyers, professionalism was not an explicit category, but rather attached to its manifestations. Professionalism only seemed to be a relevant implicit criterion at a more abstract level. Due to the limited frequency and lack of traceability in the interviews, professionalism will not be discussed as a separate category in the following.

The criteria that were mentioned by more than 10% of the informants and identified as relevant across two or more of the sources in Table 15-2 will be described below. This selection has been done to limit the scope and to focus on the most important criteria.

## **15.4 Description of key selection criteria**

Based on the insight from both the case studies and the interviews, the different criteria, except for client-professional relationships, will be described in the following. Under relational criteria only references, recommendations and reputation are addressed. The client-professional relationship is treated in depth in Chapter 16.

### **15.4.1 Input based criteria**

Knowledge was found to be the most emphasized input based selection criterion among buyers. Knowledge was widely perceived as individually based in PSFs and the concept was found to overlap significantly with the people dimensions, in the sense that buyers are looking for experienced and knowledgeable individuals and teams. However, some other characteristics of people were brought forward in the empirical data, which should be looked at separately from the knowledge criteria. In terms of firm criteria, firm size was the most important across buyers and sellers alike. Each of the criteria categories – (A) knowledge based, (B) people based, and (C) firm based criteria, is discussed in detail as follows:

#### *(A) Knowledge based criteria*

Three types of selection criteria in particular were brought forward that relate to PSF knowledge. Those were (1) knowledge, (2) experience, and (3) reference list. Each of these will be dealt with below. The inter-linkage between these different concepts is discussed as a final point (4).

##### **(1) Knowledge**

Selection criteria related to knowledge can be traced to three main concepts: general knowledge, content knowledge, and context knowledge related to industry, buyer firm and assignment. Knowledge as a general concept was referred to as a key selection criterion in all the in-depth case studies. This criterion was also repeatedly referred to in the other sources of data, also by the consultants. Knowledge arguments were often based on a scale from good to bad or based on confidence or doubt of the actual knowledge of the supplier. Alternatively, comparison across suppliers were made and suggestions put forward concerning whether the suppliers were better or worse than others. While the meaning of the notion of knowledge could be interpreted relative to certain knowledge areas, in many cases specification lacked. Examples of typical arguments are: *'They are good knowledge wise'* (HR Manager, Buyer of recruiting services) and *'They lag in terms of knowledge'* (Project manager organizational development initiative, Buyer of organizational development services).

One reason for the use and reliance on general knowledge criteria could be related to the limited explicit and implicit conceptualizations of different types of knowledge across buyers. As pointed out by the managing partner of a consulting firm and ex-knowledge manager at a major PSF: *'...it is extremely difficult for people to describe what type of knowledge one needs...we do not have the language, concepts and methods to describe this in a distinct way. So they are not good at describing their need...'* While a number of buyers talked about specialist competence in attempts to move beyond generalist conceptualizations, the details of the specialist knowledge were still overlooked.

Beyond general knowledge, two other types of knowledge that were essential in the evaluation of suppliers could be identified: content and context knowledge. These will be discussed in the following. The relevance of these two dimensions is nicely illustrated by the Strategy manager at a major Norwegian firm: *'Those that succeed have two things...knowledge within their field and a commercial understanding...an ability to put themselves in the potential situation of the buyer...'*

Content knowledge concerned the buyers' perception of the suppliers' knowledge of particular areas or topics of relevance to the given client assignment. For example, in the case of a leadership development assignment, the suppliers' perceived knowledge of how to develop 360° evaluations was brought forward. In the case of IT-consulting, it was related to the knowledge of particular programs and platforms. In the case of market analyses expertise it concerned marketing competence and particular statistical modeling competence. Within financial services, the area of knowledge of transactions was pointed out as a key evaluation criterion. Within law, areas of content knowledge mentioned included tax or competition law.

While direct comments were made by buyers concerning the level of content knowledge across suppliers, these comments were relatively limited. Rather, the experience of the suppliers within different types of content areas was used as an indication of the actual content knowledge. In addition to experience, the degree to which a supplier had a particular group of people or department dedicated to a particular content area was pointed out as an indicator of their knowledge. The level at which the content knowledge was specified varied across the level of need specification and knowledge of the particular assignment, decision makers and industries. Thus, specification of content knowledge ranged from in-depth details such as knowledge of particular tools, e.g. 360° evaluations and particular statistical tools, to more general themes such as leadership and marketing.

Context knowledge concerned knowledge of the situation under which the service was to be rendered. The richness of description and detail of how the context knowledge was described stands in strong contrast to the descriptions of the content knowledge. The considerations of the PSFs' knowledge and understanding of the context could be divided into different dimensions: (a) industry, sector and market knowledge and (b) knowledge and understanding of the buyer organization, business and decision makers. Additionally, (c) the ability to interlink these different types of knowledge was seen as important.

*(a) Knowledge of buyer industry, sector and market*

Industry knowledge was mentioned as important in the selection of PSFs across the majority of cases and interviews. Examples of industries noted by informants were banking and finance, shipping and offshore, building and construction, telecoms, aviation, retailing, logistics and sales and marketing. In terms of understanding the industries, understanding industry mechanisms and challenges, the operating environment and the regulatory conditions were all pointed out as relevant. Industry knowledge was not a global phenomenon and most buyers seem to refer to industry with a national perspective. However, in some of the interviews and cases industry knowledge in particular geographies and most often in a particular country was pointed out as essential. PSF representatives emphasize the importance of understanding industry dynamics both locally and nationally as well as globally.

In terms of sector, what was particularly relevant was the distinction between different features of the public and private sector, and also the 'semi-public' sector. PSF representatives pointed out that it was important to understand the political processes and the connection and tensions across politics and administration in the public sector. Buyers state that the public sector is not homogenous across state and municipally governed entities. Sector knowledge beyond public, semi-public or private organizations was also mentioned. For example, insight into areas such as transportation, health, social security and employment governance was noted as essential beyond more general sector knowledge. Among things that were particularly important relative to knowing the sector and industry was that the sellers knew the 'language' of that particular industry or sector.

*(b) Knowledge and understanding of the client.* To a significant degree, the buyers were concerned with whether the suppliers knew their organization or not and had the ability to apply that knowledge. The essential role of firm level contextual knowledge can be illustrated by a quote by a buyer in the process of selecting suppliers for a parallel frame agreement within management consulting services: *'[Organization X] is an institution with an*

*inner life. What is essential is to understand this inner life and the people. One can have subject knowledge, but to understand [the large] number of employees in a complex organization is difficult.'*

The understanding was ranked at different substantial levels. At the simplest level buyers pointed to a basic understanding of the firm. Some buyers were more specific in their descriptions and related the knowledge of different sub-areas such as: corporate structure, including its divisions, as well as business units and areas; strategies and goals, and business values and culture; logic, drivers, challenges and needs; organizational pace; and how problems were solved. Also, understanding the individual was pointed out as essential. In particular, the individual client's ambition, desires, wishes and risk profile were considered relevant. In addition to management, the purchasing representatives were suggested by PSFs as important organizational representatives to understand.

However, buyers also suggested that there might be instances where it is positive that the seller does not know the firm and where independence is preferable. The following quotes by key executive buyers in leading Norwegian firms illustrate this:

*'Relative to.... new consulting companies that are invited into a process: It is clear they are in a worse position. At the same time...they have an advantage as they can come with totally different things, a fully new perspective that can be a little bit refreshing.'*

*'I think that they easily develop stereotypes and fixed answers concerning what a company really is about, and too many things happen in the course of very few years...for us to settle with the fact that the knowledge was gained once and for all, or that the same point of view applies...'*

The use of client specific knowledge and understanding as a selection criterion was also pointed out as inappropriate among two of the public buyers. They pointed out that using such criteria would not be suitable when considering the intention of the law that all suppliers should be treated equally and that the evaluation should be done as objectively as possible.

*(c) Interlinkage across the industry and firm level contextual knowledge*  
While the criteria pointed out above could be thought of as independent, PSF representatives illustrate that they are in fact interlinked. As pointed out by a key executive at a recruiting agency: *'...if you understand the industry, it is easier to understand the company and the type of business [the customer] is doing.'*

However, the uniqueness of the individual organization still demands understanding of a particular firm. As stated by a key executive of one of the

key global IT-consultancies: *'..if you have worked with one bank, it is not that one bank is similar to another bank, even though they may look similar from the outside. They can have different drivers internally. Some are sales oriented, others are administratively oriented.'*

## (2) Experience

Experience concerns what a particular firm or individuals within that firm have done in the past. While it might seem interesting to look at education in the process of selecting professionals, education was only mentioned two times as essential in all the interviews and observation conducted. Rather, experience dominated as an indicator of knowledge. Buyers seemed primarily interested in whether the individuals that were to be used for their assignment had the relevant practical experience, and was not as concerned with the firm's experience.

The type of experience that was considered relevant among buyers was dependent on the type of service or assignment in question. Experience of the industry, sector or similar work as the one needed by the buyer, was seen as relevant. In particular, clients were interested in how companies had dealt with similar problems in the past as the ones they were now facing. They were also interested in finding out whether the PSF had worked with comparative companies in terms of size, processes and tasks. According to some of the PSF representatives, the experience does not have to be related to success. In cases that relate to innovative and developmental work it is assumed to be better to have tried and failed, than not have tried at all. In the public sector, sector experience was pointed out as essential. Relevant sector experience could be related to experience from municipal or governmental organizations, or from directorates.

Experience primarily concerned the degree to which the people within the firm were experienced. Of interest to the buyers were the past work experience and background of the individual professionals hired. In particular, they were interested in whether they had 'worn the shoes' of the buyer. For example, their experience as sales people, negotiators and process drivers was pointed out as relevant. Alternatively, experience as a consultant was also considered of interest. The content of the individuals' CV was seen as a source of reference and a way to evaluate experience at the individual and group level. Average experience in years by offered personnel, for example, was used in the public sector as a way to compare firms.

The relevance of the firm and the individual level seemed dependent on the type of purchasing process in question. In the case where frame agreements were studied, the firm level experience appeared to be of particular interest. In the cases where a specific assignment was evaluated, the experience of the

individuals was considered more important. In cases where experience was related to the team or group level, experience of working together was deemed important.

Experience was not always seen as positive by clients. Experience from the type of work that the client does not want could be seen as a disadvantage. For example, one of the PSFs that was evaluated harshly in Case 2 had the wrong type of experience since they had previously worked extensively as independent evaluators of organizations, rather than as co-productive partners. In this case, process experience and the fact that the professional had been through such processes was pointed out as essential.

### (3) Reference list

In the private sector interviews, the concept of references was used broadly. Thus, statements were categorized under one reference construct and seen as a relational selection criterion. However, the case studies in the public sector suggest that the 'reference' concept should be refined into two different forms of meaning: a list of past assignments, which could be seen as a 'track record' and evaluations by customers that have previously used the firm. The following quote by a CEO of a consulting firm illustrates this dual function of references: *'...references have impact on two levels...One is as an arrow towards being serious, and...do they have any clue of what they say they have understanding of?...The fact that you have worked with it. And that you can check by looking at the references. But then it is clear that if you want to take people in that you do not have a trust based relationship with, then you need to check others' trust based relationship with those persons.'*

A quote by a CEO of a Norwegian consultancy focusing on the public sector in Norway illustrates various uses of the concept of reference by buyers and seller of professional services: *'References are two things: References are in the offer, the first phase is that you have a reference list with projects and clients that show that you have done similar things....and reference persons that can be called in phase two, where you are part of a kind of final heat.'*

This quote illustrates the relevance of making the distinction between the references list and the actual references in the public sector. According to the law, the same evaluation criterion cannot be used in both the qualification and the evaluation. Thus, neglecting to make this distinction could in fact be against the law. However, decisions by the The Norwegian Complaints Board for Public Procurement (i.e. 109/2003 and 17/2005) show that references can be used as both. Thus, while the reference list typically is used for qualification, the actual customer evaluations are used in the evaluation and will be treated below as part of relational criteria which result from the embeddedness of markets.

Through looking at the list of past assignments, buyers seem to assume that they get an understanding of the knowledge a particular supplier has in a particular area. The type of reference of interest to buyers is what they refer to as selected relevant references. Very few of the buyers clarify what relevance refers to. In the public sector, it is common to ask for references from the last 3-5 years.

(4) Interlinkage across knowledge, experience and references

The key knowledge oriented selection criteria mentioned by clients are content and context knowledge, as well as experience and references. These dimensions interlink closely. First, the primary source of knowledge is experience. As pointed out by the following quote by a leading professional:

*'Experience and knowledge are connected. If you are looking for knowledge, you are looking for experience.'*

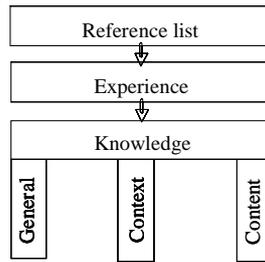
In turn, experience and references are closely interconnected. References give traceability in the experience base of an individual or firm. While references are pointed out by buyers of professional services as an essential criterion in the process of selecting a PSF, what matters in terms of the content of the references is captured in the experience criterion. As pointed out by a leading professional at a PSF: *'Experience is documented through reference cases'*

A quote by the CEO of a consultancy focusing on the public sector illustrates the interrelationship of these different concepts and how the different concepts are used to enable the development of solutions for clients: *...you have some experience, and add it together, and then a lot of development takes place. And you need to show, based on your experience, that you know this. References are very important.'*

The interrelationship across knowledge, experience and reference lists is shown in Figure 15-3, which illustrates how customers use reference cases as an indication of experience, which in turn is seen to represent the actual knowledge of the PSF. Thus, the arrows in the figure illustrate that the references are key sources of information for clients to understand experience. In turn, the experience is used as an indicator of the PSFs actual knowledge. While different buyers seem to talk of references, experience and knowledge, references and experience are key indicators of knowledge, as knowledge typically is difficult to observe directly. Even so, many buyers use the concepts interchangeably depending on their level of abstraction and specification.

The quote illustrates the importance of having references as illustrations of experience. In turn, customers see experience as an indication of content and context knowledge as illustrated above.

Figure 15-3: Interrelationship across knowledge, experience and reference list.



(B) People based criteria

*'The firm is not more than its key people'*

Executive at major Norwegian company relative to PSFs

Three types of criteria were used as 'people' arguments for selecting a PSF: general comments about the people of the firm; comments about individuals; and comments about the team to be used by the buyer. These three different criteria will be discussed in the following. The general comments concerned whether the people seemed nice, good and senior. While seniority was frequently linked to experience, it was also linked to how they behaved and acted in the meetings.

The individuals are very important in professional services. As pointed out by the partner in a major Norwegian law firm: *'When it comes to the law services industry and other professions, they are personal industries.'* In fact, the individuals assigned to a client were pointed out to have significant impact on the perception of success among buyers. This was noted by a strategy director at a major Norwegian stock listed firm: *'It is essential ...for a purchase to be experienced as successful that you...meet the individuals you want to work with...'*

The relevance of the individuals is shown through the mentioning of particular names of 1-2 senior people when referring to the firm. Also, buyers brought up whether a person was convincing or not. However, the comments about individuals and their impact on the buyer selection were not always positive. This was illustrated in Cases 1a and b as well as Case 2,

where negative comments were made about the particular people. A formulation used was for example: ‘... *I do not want [person Y] to take part.*’ Buyers also mention that they were willing to take out individuals from a team. To the degree that one firm had better individuals than others, buyers seemed to see that firm as better.

Individuals that were considered to be particularly important to the client included the project manager or the person in charge. In particular, the fit across the individual and the role assigned to the individual was emphasized as important. One key characteristic of the individual that was mentioned by a number of buyers to strengthen or weaken the position of a particular firm was personality. However, not only the personality per se, but also uncertainty about the personality seemed to lead to doubt on the part of the client. At the same time, personality is not objectively measured, and the personality fit across the buyer and the seller was pointed out as relevant. As pointed out by one executive buyer in a large industrial company relative to a particular and very well-known communication consultant in Norway, who has a typical male Type A personality: ‘*Geelmuyden is a man that works very well with Petter Stordalen, but it is not certain that he would work as well with [our CEO].*’

Relative to the team, buyers pointed out in particular that they wanted it to be good, heavy and dedicated. To the degree that the team was seen as thin or weak, this was perceived as a negative. The interviews suggest that team and individual characteristics are likely to be reinforcing since good individuals will typically attract good teams. In this way, the individual and team dimensions should be interlinked and reinforcing. In other cases the two dimensions were not related. The following two quotes by buyers illustrate this situation:

*‘They get a plus for a good project manager, but a minus for a thin team.’*

*‘There are two seniors, but otherwise it is a thin dedicated team.’*

*(C) Firm based criteria: capacity*

A number of characteristics of the firm were mentioned by buyers as important for the selection of suppliers in the case studies. In particular, seven types of characteristics were recognized throughout all the case studies: capacity or size, age, governance structure, turnover, performance, solidity and professionalism. However, in the interviews, only one of these characteristics was repeatedly mentioned as the most important: capacity. To limit the extent of the criteria description, only capacity will be looked at in detail in the following.

Capacity was mentioned by a number of buyers of PSFs. However, the concept is often used without specification. As pointed out by the CEO of a

consulting firm: *'Capacity is often a criterion, but it is very seldom comprehensible.'*

To the degree that the concept of capacity was defined by buyers, two ways of using the concept could be identified in the empirical data: as firm size or as amount of knowledge and experience. One buyer in Case 1a illustrates the relevance of these different dimensions: *'...experience says something about capacity. [Capacity] also concerns amount.'*

Size might be questioned as an indicator of capacity in professional services as it seems to be unrelated to competence. Even so, a dominant number of buyers mentioning capacity as a criterion used size as an indicator. They point out that size says something about the actual resource capacity and accessibility of the supplier. As pointed out by the managing partner of a law firm: *'...we are so big...that we always have accessibility to resources to complete an assignment. And when you are big you can operate with excess capacity. ... that easily can be eliminated if there is a need to deploy extra resources to a client.'*

Those buyers who focus on capacity as firm size tend to emphasize the number of employees as being an indicator of capacity. Other criteria considered were number of people in the team and number of simultaneous assignments that the firm was able to undertake. Lack of firm size was linked by buyers to vulnerability and risk. The following quote from Case 1a illustrates the buyer's perception of small size as an indication of vulnerability: *'They are few and vulnerable.'* This quote by the communications director of a major Norwegian company also illustrates the risk of size: *'We cannot risk selecting a small agency, that might be very knowledgeable, but then they all...get the bird flu...'*

In some processes, capacity was pointed out as important there and then. In other cases it was seen as related to accessibility over time. As pointed out by the CEO of a leading consultancy in the public sector: *'There are also demands to indicate how accessible the consultant is...when you are supposed to suggest how long, for example, it will take before you can free up a consultant, and how long it takes before you can free up two...'*

Capacity as size was, however, not only thought of as positive. Some customers saw it as a threat in the sense that it became difficult to understand their sub-units. As pointed out by one buyer: *'...they are too big, so sub-categories disappear.'*

Those buyers that integrated the knowledge component into the concept of capacity focused on the presence of a large knowledge environment in the

PSF. Other buyers emphasized the degree to which a firm had the ability to allocate resources that are relevant for the need of the particular client. The following quote illustrates this perspective on capacity: *'It is not the number – 100 or 200 – that is central, but to what degree there are resources that are able to cover our need.'*

#### **15.4.2 Assignment based criteria**

In addition to the input based selection criteria, which basically deal with the type and amount of resources of the PSF and its employees, assignment based criteria concern the PSF's approach and attitude to a given assignment. Thus, three criteria were identified as particularly relevant among buyers and will be described in the following: (A) service content, (B) client service, and (C) presentation and proposal.

##### *(A) Service content*

As it often is difficult to determine the final solution, the service content evaluated by buyers was related to how assignments were understood and the PSF's way of addressing them rather than the final solution. The criteria related to service content can be divided into three different subcategories: (1) understanding of the task/assignment, (2) assignment approach, and (3) methodology.

##### *(1) Understanding of task/assignment*

A key criterion for buyers was that the PSF did in fact understand the assignment and the specific contextualized need of the buyer. The managing director of a Norwegian consulting firm illustrates the extreme importance of understanding the assignment: *'...we have not understood the task if we lose [the assignment]. Because if we have understood the task...we should win...'*

Understanding an assignment is closely related to content and context knowledge and the ability to develop an understanding of the complexities of a given situation. As pointed out by a partner of a major international consulting firm: *'One thing is to have general experience of that type of problem. Another thing is to have a specific understanding of how this type of problem can be solved in this type of firm.'*

At the top level, a distinction among buyers was made in terms of whether they did understand the problem, whether the understanding was good and clear or not and whether there was uncertainty about their understanding. In particular, buyers emphasized that the PSF must understand the mandate of the particular assignment in terms of scope, limitations, goals, delivery and timing.

One of the ways in which buyers checked whether the PSF did in fact have the right level of understanding was by evaluating their follow up to the initial meeting. In particular, the concreteness in the follow-up relative to the questions that came up in the presentation.

(2) Approach

The degree to which approach or solution was emphasized by buyers was dependent on the credence nature of the task and the extent to which buyers were able to describe their need. Approach was used in cases where the outcome of the assignment could not be specified, which seemed to be dominant in the selected data. Also, the subcategories of the approach and solution categories were very similar and will be treated together in the following. While one buyer pointed to approach as of limited importance as it was similar across PSFs, a dominant percentage of the buyers emphasized approach and methodology as being important for selecting between PSFs.

At the top level, approach was evaluated in terms of whether in fact the PSF had a clear way of dealing with the client problem. As pointed out by a buyer in a large state owned organization: *'It is XXXXing important that those you turn to understand the task and come with a concise answer about how to solve the task.'*

Where an approach was suggested, it was evaluated based on whether buyers perceived it to be good or bad or on how 'smart' or 'intelligent' the buyer thought it was. Related to solution based evaluations, the design, functionality, usability and user friendliness as well the completeness of the solution were pointed out as significant. Also, the degree to which the approach or solution involved a clear process or plan that involved delivery times and phases was perceived as important, as was insight on maintenance, follow up and integration. Finally, contractual restriction, guarantees and likeliness of content deviations from the requested solution were evaluated.

New, different, creative and innovative thinking and ideas that follow the times were favorably evaluated. At the same time, buyers pointed out that it was positive that the assignment approach was thorough, tested, clear, pragmatic, practical, quick, tidy, to the point and concrete in that it involved detailed descriptions and specifications of how the assignment would be solved in terms of timing, substance and form. A quote by a buyer in a large publically owned company illustrates this point: *'It is important that the companies provide clear conclusions and recommendations. And that they stand by them. I do not want to know alternative solutions, but their concrete recommendations.'*

The ability to meet the client specification combined with PSF realism, adjustment and solution orientation was greatly appreciated by buyers. In general, customization and ability to meet client needs were emphasized across buyers as a key criterion. As noted by a buyer of consulting services in a major privately held Norwegian firm: *'...it is not that one solution will be suitable for every problem...those that come and tell me that they have a "one solution fits all" approach...I have stopped believing it...There are very many who...have a solution, and try to convince the client,... but if they do not understand what we say to them, and try to adjust thereafter and understand that they need to work based on another platform, then they get no business here.'*

However, the focus on customization must not be taken to an extreme. A managing director in a consulting firm states: *'It is a balancing act. You can go two ways here... One of them is the simplest. You have concepts, and you go out to sell them. You are not concerned with customization, but very concerned with the concept. And it can fit and be very good, but it can also be very insensitive. And then you have those [consultants] that only focus on need, who go in that direction and say: ....but what is it that you want?...where is your advice then?...do you have anything to offer?...*

Multiple buyers pointed to a preference for a co-productive, relational and process based approach, as opposed to an expert based approach. A number of buyers preferred the PSF to work closely with them. They did not appreciate a 'doctor-patient' approach, where the PSFs takes an expert role and solves the problem at hand by going away and returning with the answer – for example in the form of a report. As pointed out by a highly experienced buyer from a large public company: *'In the final phases of the project they come in and say: Here is the report! I seldom talk to them and often afterwards ask them to go to hell. They tell me before they present that this is the best report. They think they can come and tell me what is good. They should understand that I am more experienced than them in some areas.'*

There was, however, a difference across buyers in terms of whether they wanted the PSF to primarily do the project on its own and 'work for' the client, or if they wanted the PSF to 'work with' them. Some clients pointed out that in certain situations extensive involvement by the PSF was seen as negative. Some of the representatives of the PSFs also stated that those different approaches are likely to be suitable depending on the different types of needs and situations and that it often is important to balance the two. For example, co-operation is seen by some professionals as an essential ingredient to making sure that things happen in the organization. As mentioned by the partner of a Norwegian consulting firm: *'...it can be better to use energy to develop a chicken than to get a hard-boiled egg. We deliver*

*something that is anchored and that is necessary to make it happen. When the answers come out, then they can be implemented in the organization...'*

However, the CEO at a leading Norwegian consulting firm viewed this as a fundamentally different philosophy on how to do consulting. He suggested that whereas expert consultants focus on answers, process consultants focus on the process. As pointed out by the managing director of a process oriented consulting firm: *'The big difference in the philosophy of these large [consulting] houses...and us, is that they have a genuine perception that they know better than the customer. They have better benchmarking analysis, and they have experts that know the industry, and they go in and do interviews and come out with conclusions. We rather mobilize the organization to talk to each other in new ways, to relate and co-operate in new ways that enable them to take out the knowledge that already exists in the organization, and [clients] arrive at solutions themselves. We sometimes also chip in new knowledge to interrupt and develop their perspective. But we do this with much more co-operation, and are not experts in their area.'*

### (3) Methodology

There was some confusion among buyers concerning the use of the concepts 'approach' and 'methodology'. Some buyers used the concepts interchangeably as the way in which clients went about arriving at a solution to the client's problem. Other buyers made more of a distinction between the two. While an approach was seen as the way in which a company decided to go about arriving at a solution, methodology seemed more formal in that it was more generic and based on experience. Thus, in addition to the particular way of tackling the clients' problem, the PSFs were also evaluated based on the theoretical and methodological underpinning foundation for choosing that particular approach and the specific and generic tools that represent templates that are used across assignments.

Many buyers emphasized the presence of and type of methodology proposed by the PSF as an essential part of the approach and key to the selection of firm. As pointed out by the principal of an international consulting firm: *'...you need to have a method...a general project methodology is a hygiene factor...if you are not credible about having basic knowledge about it, then you will not survive.'*

While some buyers talked very generally about methodology in terms of good and bad, others incorporated very detailed considerations of methodology into their evaluation. Different buyers also seemed to have particular likes and dislikes relative to methodology and particular tools proposed. Buyers saw it as important that the proposed methodology was ethical and tested beyond the particular APS and according to academic

standards. To the degree that a methodology was internationally tested it was emphasized that it also was checked for suitability to local conditions. In general, risk related to the application of a given method was perceived to be negative.

There were differences in the degree to which buyers were interested in the philosophical and theoretical underpinning of the approach. While some buyers were very interested in the philosophical perspective of the PSF, others pointed out that they wanted the least theoretical and most practical approach. Thus, it seems that while the underlying components of the method should be academic, the presentation to the client should be customized. PSF representatives pointed out that the relevance and importance of methodology as a selection criterion was likely to vary across buyers and types of tasks.

*(B) Client service*

Whereas the content concerns the solution of the problem, the service concerns how the buyer conceives that they are treated by the PSF and the attitude that the PSF has towards them. Service could to some extent be related to the approach in the sense that certain types of approaches are likely to be more closely related to certain types of attitudes. However, attitude and client service will be looked at independent of the approach in the following. Key groups of criteria mentioned in the empirical material that relate to client service and attitude can be classified into two main categories: (1) client orientation, including level of pro-activity, motivation effort and concern, and (2) PSF style and appearance including flexibility, humility, language, dress code and humor. These two main categories will be looked at in detail below.

(1) Client orientation

Client orientation can be defined as the extent to which the PSF makes an active effort to meet the needs of the buyer. The following quote by the CEO of a Norwegian management consulting firm illustrates the essence of customer orientation: *'The basics have to be: 'I am here for them and their needs are important. You need to want to wish them all the best...deep down - in your prolonged spinal cord...if not it turns into a slick consultant thing, and that is lethal...and if you slip there you do not gain trust...You cannot bluff this.'*

Key characteristics of customer orientation mentioned by buyers were motivation, pro-activity, interest, effort and concern. Motivation and pro-activity were evaluated by buyers' based on their perception of whether the PSF in fact wanted and seemed hungry and determined to do the task at hand; were enthusiastic about the project; and showed interest in their

company. Most often a laid-back attitude was seen as negative by buyers. However, not all buyers wanted people to be too pro-active. It was to some extent perceived as annoying.

Buyers also pointed out that it was important that the PSF actually seemed to care about their problems and gave them priority as a customer. Priority was seen by customers as related to the degree to which the PSF was accessible and attentive. An example by a managing director of a communication consultancy illustrates the notion of priority: *'[Client X] asked for a meeting, but I already had a meeting with [the CEO of one of the largest companies in Norway] scheduled, and it was the only time it was possible to meet [client X]. I did not do it to flatter him or anything like that, but I said: 'you are the biggest customer – I will move my meeting with the CEO.'* And he sent it around to all his bosses..., and said that this is a person that knows customer development, he puts the largest customers first – it had an enormous effect.'

(2) Style and appearance.

The style and appearance of the PSF were also pointed out as relevant by buyers. Among other traits, humility and flexibility and the application of a human, jovial and collegial approach was seen as positive. Arrogant, didactic and slick appearances were not appreciated by buyers. As pointed out by an executive within organizational develop in a Norwegian company: *'I would never buy consulting services from an extremely snobbish, arrogant and self-righteous consultant - for example from an older gentleman with a tie.'*

Being ingratiating and fawning was not considered positive by buyers. Rather, buyers wanted PSFs that were down to earth and that showed respect and understanding for the client. Many buyers did not want the suppliers to be 'show-offs' or have an arrogant 'know-it-all' attitude and an instructive approach. Rather, it was seen as important by buyers that the PSF showed ability and willingness to adjust and listen according to the desires and needs of the client.

Humility and flexibility were however seen as liabilities among buyers to the degree that the PSFs were too soft. It was seen as important that the supplier has some spine and was willing to challenge the 'status quo'. As pointed out by one buyer in Case 1a: *'Some [suppliers].... are so soft and flexible that they almost dissolve.'* The communication director at a major Norwegian firm illustrates the need for balance in flexibility and humility: *'They had a style that suited us...they were humble, but professionally strong, flexible, but still determined... that are those factors... that are still important.'*

Humor and a good mood were mentioned by a number of buyers as relevant for the selection of PSFs. For example, in Case 2 the humor of one of the unknown suppliers was highly appreciated by buyer representatives. As pointed out by a professional: *'As leader of a team you try to break the ice, create some laughter, ... and a good mood...we won a competition, then they told us to our face that other offers strictly speaking had solved the assignment better, but that we stood out as a fun, competent and an integrated team that they wanted to work with.'*

Some buyers also include language and dress code in their evaluation. As pointed out by the ex-strategy and divisional manager at a major Norwegian publically traded firm: *'...the social side of it, it goes down to the banal stuff such...as how people dress...and language.'*

### (3) Proposal and presentation

The proposal and presentation concern the format through which the approach is presented to the client. The proposal was a primary source of evaluation in the public sector, but given less emphasis in the private sector, where presentations are more usual. At the top level, a crude distinction was made between good and bad proposals. The evaluation was also related to the expectations of the buyers in that they assessed whether they were satisfied or dissatisfied with the proposal. Other dimensions evaluated concerned how clear and rich the proposal was. Buyers were also concerned with the style and format of the proposal document and that it looked like the firm had previous experience working on such proposals. The structure of the document seemed to matter to clients. Among other things mentioned were layout, size of font and the use of standard phrases. Clients were very negative towards proposals that were clearly a copy of past work that a PSF had done. A relatively minor error that was seen in more purchasing processes, which had a very negative effect on the buyer's evaluation, was where the PSF had failed to remove the name of another company to which the proposal had been sent in the past. This was taken as a clear indication of lack of customization.

In terms of the presentation, some PSF suppliers gained in position after their presentation. Evaluation of the presentation was typically added as a plus or a minus to the firm. In their evaluation, buyers were concerned about the degree to which the presentation deepened their understanding of the proposal. Creativity in the presentation was seen as positive by the buyers. Also, buyers pointed out that there were some presentations that they liked and some that they did not like. Thus, buyers were concerned with the tacit and interpersonal dimensions of the presentation and considered whether they got a good or bad feeling from it. However, these feelings

relate closely to the chemistry dimension of the client consultant relationship, which will be studied in more detail below.

#### **15.4.3 Economic selection criteria**

While the criteria listed above concern maximization of customer benefits, buyers also considered monetary sacrifices in their evaluation. These sacrifices are referred to as economic selection criteria. The cases and interviews showed that the sophistication of buyers and how they evaluate sacrifices varies. While most buyers focus only on price, a few took a more holistic point of view and considered their costs of an assignment. While some buyers mentioned the total costs of the assignment, others talked about particular costs. Among these costs were switching cost, development and additional expenses. However, while the cost criteria reflect higher buyer sophistication, the interviews showed that the main selection criterion used to evaluate sacrifices was price – which will be discussed in the following.

Most buyers, both in the public and private sectors, focused on price when evaluating the sacrifices in the process of buying an administrative professional service. As pointed out by an executive buyer at a large Norwegian firm: *'Price always matters - how they build their pricing structure.'*

The PSFs also recognized that price is important. As noted by a management consultant at a leading international consulting firm: *'Sometimes the price is unimportant, but whether it is important or not, price always says something...the cheaper the better. As long as you can get the same quality for a given price, it is better...'*

A number of buyers however pointed out that price is not a key priority. According to a buyer in a Norwegian governmentally owned firm: *'There are often other things than price that matter.'* The professionals also point to the limited relevance of price: *'Price has less impact than most think.'* Another professional details the relevance of price: *'Not price at any price – but if all other factors are similar, it is the price that decides. But it is not very often that all factors are similar.'*

Across industries, the difference in price across suppliers was about 100%. While there were larger differences, for example in recruiting, this difference was caused by difference in type of service offered rather than variation in price for similar services. Thus, even though there was a significant difference, a number of buyers pointed out that the reason for not heavily emphasizing price was that prices across suppliers were often perceived to be relatively similar for similar types of services.

At the most fundamental level prices were evaluated based on whether they were high or low, good or bad, whether the assignment was cheap or expensive and the degree to which the buyer was satisfied with the price. The price was a quantitative criterion, and buyers seemed to quickly develop a perception of the level of prices presented. In Case 1a, the lead buyer was very direct in his evaluation of the supplier's price: 'XXXX – *what prices....XXXX – That is a very high price...They are XXXXing expensive.*'

Prices were evaluated relative to other suppliers. As pointed out by one participant of the buyer group in Case 1a: '*...If we should choose [PSF X] or [PSF Y], then it should be done based on the condition of a lower price. If [PSF X] cannot match [PSF Z] on price we choose [PSF Z].*' Also, an executive at a large governmentally owned company emphasized: '*They met the others on price and then it was okay.*'

Buyers seemed to have a scope when it came to pricing, and suppliers were evaluated based on whether they were within or outside of that scope. One buyer stated: '*They are not totally out of scope when it comes to pricing.*' Professionals also recognized the importance of being within a particular price scope. As pointed out by a key executive at a major IT and management consulting firm and a partner at a major law firm: '*...you need to lie within a scale which is not fully rigid.*'

In the early rounds of the evaluation – especially in the public sector – the price was also used as a way to eliminate suppliers. As pointed out by a topic specialist on Case 1a and one of the representatives of the buying group in Case 2: '*We can take them out on price.*'

In the case of parallel frame agreements, the details on the particular type of task to be solved were often unknown. As a result, the level of customization and type of approaches were often not seen as essential in the evaluation. In these types of agreements prices were pointed out as relevant not only in the selection of suppliers for the overall agreement, but also in getting the actual assignment. In particular, high prices could easily lead to limited use of the company that was on the frame agreement. As pointed out by a divisional executive in Case 1a: '*Then price will be a problem. If they are too high on price we will not use them. It can be great to get in, but they will not be used*' Some professionals, however, pointed out that the frame agreement determines acceptable price levels, and that the individual users of the agreement still use suppliers even though the price is high. Thus, by establishing a high price level in the frame agreement, it is easier to get a higher price in the individual assignments. The price-effect on the individual assignment depends on the use of frame agreements across firms. Whereas some buyers established the level of price in the initial agreement and relied

on that price in the use of a given service, others applied a second round of competition on price in the selection among suppliers in the agreement.

In addition to the price level, buyers emphasized that lack of specification of the price and not being able to understand the pricing by the supplier was seen as a negative. Also, buyers were concerned with the type of pricing and that it corresponded with the type they had asked for. The relevance of type of price concerned the buyers' ability to compare suppliers and ensure the right seller incentives. Key examples of different types of pricing were per hour and per assignment. Hourly pricing was preferred in the public sector to be able to compare offerings across firms. As pointed out by the CEO of a consulting firm selling to the public sector: *'Hourly price is measurable. You use it to compare competitors against each other, and you can say that you bought the most inexpensive...they feel that they get more for the money...more hours.'*

There were different practices across industries in terms of what type of price to offer. For example within law, hourly price dominates. Within investment banking, price in percentage of transaction value was the most common. However, in the case of investment banking, for advice beyond transactions, an hourly rate was pointed out as typical. Also top and mid-level recruiting services were typically priced based on percentage of salary or a fixed sum per recruitment. For management consulting, assignments were most often priced by the hour. In some cases, such as Case 2, a total price for the assignment was used.

Finally, discounts were used as a criterion by buyers. However, using volume discounts was considered challenging, as it might be difficult to determine actual volume effects. Also, a buyer pointed out that while focusing on discounts could be tempting it might not be a very good idea. As the executive in the large publically owned firm pointed out: *'When it comes to cost is it important to use the head. One can try to negotiate discounts. I believe that the most important discounts are achieved rather by focusing on developing the most sensible mandate.'*

The relevance of price seemed to vary across situations. In particular, standardization as opposed to customization and the importance of the work were pointed out as contingencies that determined the relevance of price. Additionally, the relevance of price seemed to vary across participants of the buying centre. While the person in charge of a project initiative in most cases was relatively unconcerned with prices, the project owner and purchasing representative were more concerned.

Finally, an interesting point was that price was mentioned repeatedly by PSFs as a reason for losing projects. In particular, it seemed to be a legitimate reason for losing projects – giving the impression that they had been victims of stupid clients that did not understand the value of the unique solution offered by their firm. The quote by a managing director of a leading Norwegian headhunter firm illustrates the need for the client to understand the difference in the value, to justify a higher price: *‘We are met in some instances where we give a price of 160 000, then they say that we have gotten an offer of 80 000, and then it is not the same process...It is two different types of products. If we do not manage to convince the client about that, then it is okay. I do not go from 160’ to 80’...we believe in that way of doing things, and if they want to do it the other way then they need to do it in that way, and then the cost is like that...’*

However, other consultants challenge these arguments. A senior executive at a major IT and management consulting firm describes the use of the ‘price argument’ in the following way: *‘Price sometimes, but usually it is just an excuse. It is not the price that normally is decisive – sometimes, but usually not. Price is something we have learned to say is important.’* This argument is strengthened by the fact that 12% more buyers mention price as relevant compared to buyers in Table 15-1.

#### **15.4.4 Relational selection criteria beyond relationships**

Relational selection criteria concern the embeddedness of markets and the ‘feed forward’ of own and others’ previous experiences. These criteria are essential due to the information asymmetry, credence nature and risk present in professional services. Based on relational criteria clients gain knowledge about firms, the knowledge they have, and their propensity to cheat. Thus, the relational criteria are both sources of information as well as criteria for evaluation.

The knowledge gained through the relational criteria impacts the degree to which the buyer trusts the supplier. As pointed out by a buyer in a public organization: *‘...if you have worked with management development for years, and managed to get a good reputation within it, it shows that you have a good network. So there are many good indications around what constitutes giving trust towards whom to work with.’*

The knowledge of, as well as the trust of a given supplier, can either be directly and indirectly observed or experienced by a client. A direct source of knowledge and trust is the client-professional relationship which will be discussed in detail in the next chapter. Indirect sources are reputation, references and recommendations. The indirect sources of trust can be general

as in the case of reputation, or networked as in the case of references and recommendations. The (A) general and (B) networked reputation will be discussed in the following. As a final part of this section the interrelationship across the reputation, references and recommendations is considered (C).

(A) General reputation

Buyers largely saw reputation as the public general perception of a PSF, which include the firm's brand name and image. At the top level, reputation among buyers was evaluated as good or bad. While 70% of the sellers of the professional services pointed to the relevance of reputation – only around 20% of the customers mentioned it. Most of those who thought that reputation was important came from the private sector. Thus, it seems that the professionals seem to overvalue the relevance of a reputation. A commonality across professionals is that they emphasize that their company is well known and of a certain size and age. As pointed out by the founder and CEO of a leading search and selection firm in Norway: *'And I think the company's reputation means something when you are buying the types of services that we offer – that it is a company that has been there for a while – a company that will be there tomorrow and, that it is not a mayfly, a company that has a tradition....'*

However, the understanding of what a reputation entails is multifaceted. As pointed out by the partner and CEO of a major law firm: *'Reputation for what? - Reputation for dedicated service? - Reputation for fleeing clients? Reputation for not commercializing cases? Reputation is a multifaceted issue – but there is a substance...'*

Professionals pointed to the relevance of reputation for certain types of knowledge, in addition to reputation for client services and professionalism. The need for a reputation that varies across areas was also mentioned – so that the content of the reputation seems real. Companies cannot be perceived as good at everything. As pointed out by an ex-senior management consultant: *'...if you want to grow you need to diversify, and the [reputation] will deteriorate. This is likely to be a life cycle – either you are in a niche and stay small and keep your profitability there – with a specific reputation...or.....When you have that reputation – then you are somewhat untouchable.'*

The need for a specific reputation is pointed out as important – particularly among professionals. As pointed out by a senior leading executive at an international IT and management consulting firm: *'...the brand arena that exists in the market place...is area specific. ...so that [our firm] ... would be in the consideration set for some types of projects, but it would typically not be for other types of projects.'*

Across firms and industries, the relative relevance of reputation of the firm and individual level seemed to vary. For example within law – the reputations of individuals were particularly relevant.

(B) Networked reputation

From the empirical material two forms of networked reputation were identified: (1) references and (2) recommendations. References are the experiences of past buyers that have been listed by the supplier as contacts. Thus, references are supplier determined and the buyer needs to take an active initiative to learn about the actual evaluations of clients. Conversely, recommendations are typically given based on the relationships and network of the buyer, with no seller involvement in the selection of whom to contact. Each of these types of networked reputation will be discussed below.

(1) References

While reference lists were pointed out above as knowledge based criterion, the content of the references – referred to here as references - has considerable relational dimensions in that they represent a ‘feed forward’ of own experiences. References were mentioned by half of the suppliers and buyers of PSFs both in the public and private sectors. They pointed out that you can both win and lose projects based on references. As pointed out by the CEO of a publically oriented consulting firm within leadership and organizational development: *‘...we experience that purchasers use time checking references from similar types of assignments. It is maybe the most important criterion.’*

In the cases and interviews, references related to the past experience of clients of a PSF or the employees of a PSF. Some buyers emphasized the individual level and asked for references on each person for a given assignment. Sellers pointed out that the level of detail and specification of the references were important to ensure that they would influence the buyer’s decision.

References can be separated into internal and external references. Whereas internal references concern what the supplier has done for the buyer company in the past, external references concern what they have done for others. Buyers pointed to internal references as more important than external ones. As internal references are closely related to the notion of a relationship, which will be discussed below it has been questioned whether internal references can be used as a criterion under the principles of equality and transparency. However, based on past cases from The Norwegian Complaints Board for Public Procurement (e.g. 66/2003 and 50/2005) internal references and personal experience can be used as criteria to the degree that they are documented. For internal references it is preferable that

documentation of the reference exists that is independent of the particular purchase taking place (e.g. 243/2004).

The concrete specification of the concept of 'a reference' was limited in the empirical material. Few details were given beyond the distinction between firm and individual and internal and external. One clarification was, however, made relative to references as a mechanism of trust, in the sense that references concern trust and knowledge. As noted by the CEO of a national management consulting firm: *'References are relevant at two levels.....On the one hand they are an indicator towards seriousness, and – do they [the supplier] have any clue about what they say they have a clue about...'*

When considering how buyers checked references, they primarily focused on the seriousness of the firm. In particular, in checking references buyers seemed more concerned with the PSFs ability for social interaction, level of customer service and adaptability, rather than the actual expert knowledge content of their work. Among those areas mentioned in the review of the references were: ability to listen, ability to run processes, show understanding, find the right problem, adapt, co-operate, develop trust, and customize solutions. Thus, the references seem to reflect many of the selection criteria analyzed above and below.

Reference checks were typically done as a latter part of the supplier selection process, and only for the most relevant suppliers. Thus, the intention of doing this might be to check up on the social and problem solving abilities of a particular supplier – with the assumption that the expertise of the supplier had already been established.

References listed by the PSFs were usually good and informants suggested that they do not give a good understanding of the actual abilities of a given firm. Thus, they point out that their value could be limited. As pointed out by an executive working with organizational development: *'It is very seldom that you get feedback from those that have selected a consulting firm – where they are displeased about the work.'*

The impact of references was pointed out to depend on who gives them. According to the CEO of a national recruiting firm: *'If you have [a CEO] or [a managing director] and that kind of people, that are known names and persons [buyers] have trust in, then the references become very important.'*

(2) Recommendations

Whereas references concern customer evaluations as listed by the suppliers, recommendations involve information from the network of the buyer independent of the PSF. They could be based on calls or by sending mail. As pointed out by the Chief Information Officer in a major Norwegian international company: *'...you call around a little bit and ask people in a similar type of job as yourself – which ...companies are good, who do you have a good experience using, who should one avoid like the plague....and then you arrive at a short list.'*

Recommendations do not have to come from the external network – they could also be internal or from other PSFs, for example in the form of an accountant recommending a lawyer. These types of recommendations are often called referrals (Wheiler, 1987). Only 13% of the informants in fact mentioned recommendations as essential for the selection of a supplier. The use of recommendations is primarily a private sector phenomenon by well-connected buyers. They seemed to be used mainly in the initiation of the process of finding a supplier and to 'arrive at a short list' as pointed out in the quote above. The details of what the recommendations include and what characteristics of the supplier were emphasized, were not generally given by the informants.

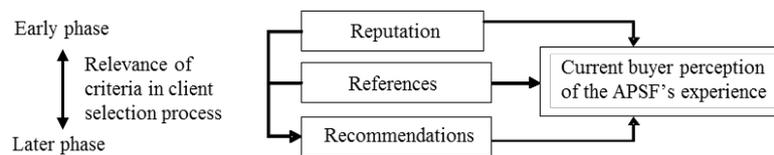
(C) Interrelationships between reputation, references and recommendations.

Buyers were concerned with references and they use references as a way to understand the social dimensions of a supplier where there is no existing direct relationship. More sophisticated buyers in the private sector pointed to recommendations, which were used in the same way. Reputation was primarily used in the private sector as a mechanism of legitimacy in early phases of the selection process where the buyer had relatively limited knowledge of the market and in the case of strategic and potentially political projects.

While these different criteria have been treated separately above, the empirical material suggests that they are tightly interlinked, and can substitute and reinforce one another. First of all, it was suggested that references and recommendations impact reputation. As pointed out by the CEO of a national consulting firm: *'It is about having a position in the form of references, that you have a name within an area...that you have a position in the demand side consciousness.'*

The different relational criteria give important indications about the experience of the PSF, which is seen as a key indicator of knowledge, as illustrated above. Figure 15-4 shows an overview of the interrelationships between reputation, recommendations and references.

Figure 15-4: Interrelationship between reputation, recommendation and references



### 15.5 Summary of criteria and point of departure

To summarize the relevant criteria for the selection of PSFs, an overview of the sub-dimensions of each criterion can be found in Table 15-3. Each of these dimensions has been treated in depth above and will not be described in detail again in the following.

Even though there has been extensive emphasis on single criteria above, it is important to emphasize that to understand PSF selection by buyers, the different criteria must be related and compared. Rather than just focusing on price or particular value dimensions, it seems that a majority of buyers are concerned with 'value for money'. Thus, buyers compare price and value for competing suppliers. As pointed out by a partner at a major international consulting firm relative to the loss of a project to a competitor: *'They did not feel convinced that the extra value was worth the price.'*

Case 3 illustrates the relative nature of price-value thinking across suppliers. In this case, it was decided that if the most expensive and best equipped service supplier was NOK 600 000 more expensive than the competitor, they would get the project. Thus, while their offering was assumed to be of higher value, the price-value difference was considered too substantial to select the firm with the higher gross value.

In the public sector the starting point for developing criteria is that they have to be related to the overall economically best offer the company can get. Thus, the criterion incorporates both benefits and sacrifices of the offer. Many PSFs point out that price is more important in the public sector than the private sector, and that the focus on price is likely to limit the opportunity for a good deliverable. However, if one looks at the criteria used, this perception does not really represent reality. High emphasis on price might be a problem in cases where unique solutions are needed. However, this research shows that in many cases there are alternative suppliers that offer similar solutions or comparative combinations of price and value, which suggests that price should become a relevant criterion.

Table 15-3: Overview of identified selection

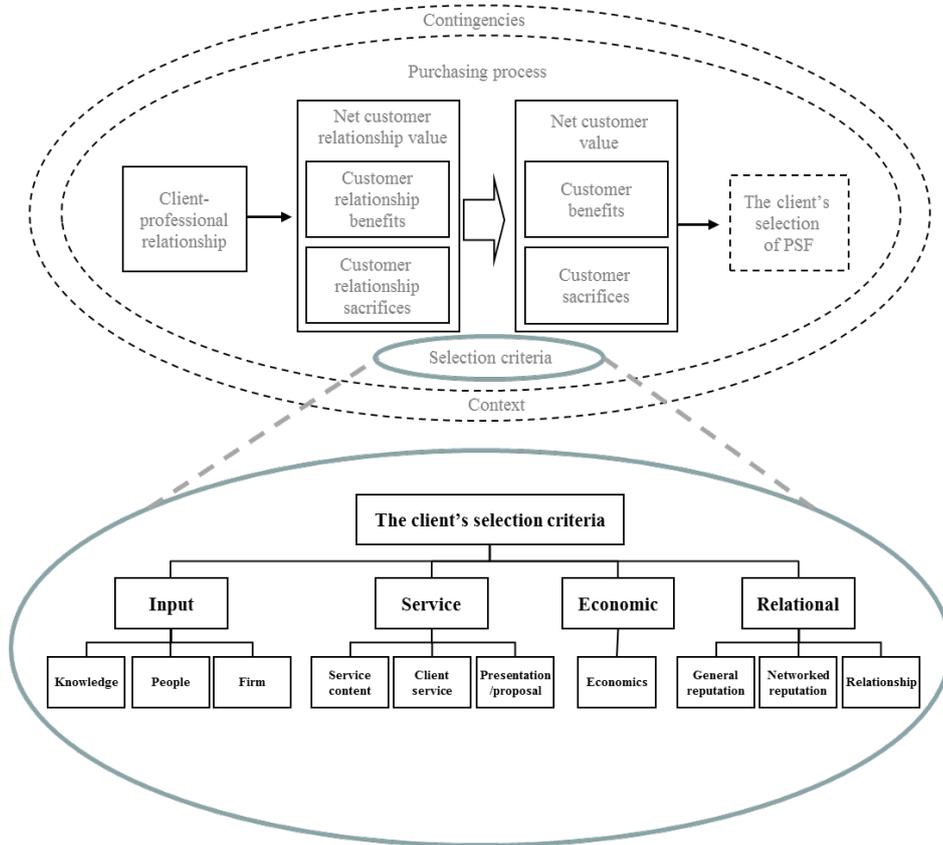
Group of criteria	Dimension	Category	Sub-category	Indicator	
Input based criteria	Knowledge	Knowledge	General	Good vs bad Level of confidence	
			Content	Knowledge in relevant area Group of specialists	
			Context	Knowledge of industry Knowledge of buyer firm	
		Experience	Industry/sector Similar/relevant tasks as assignment Practical experience		
		Reference list	Relevance		
		People	General	Nice/good Senior	
	Individuals		Project manager/person in charge		
			Role fit Personality		
	Team		Good & heavy Dedicated		
	Firm	Capacity	Firm size Amount of knowledge and experience		
	Service based criteria	Service content	Understanding of assignment	Good/clear understanding Understanding of buyer mandate Concreteness of follow up	
				Approach	Dealing with client problem Meet buyer needs/customized
Smart					
Tested					
Clear					
Detailed					
Practical					
Co-operative					
Methodology		Existence of Good vs bad			
		Tested			
Client service		Client orientation	Pro-activity Priority Care		
			Style & appearance	Humility Flexibility Humor	
		Dress code sensitivity			
		Proposal & presentation	Proposal	Good vs bad Clear and rich Lay-out and mistakes	
Presentation	Plus vs minus/like vs dislike Creativity				
Economic based criteria	Price	Level Type Specification			
		Cost	Total cost Particular costs		
Relational selection criteria	General reputation	Reputation	Good vs bad Specificity		
	Networked reputation	References	Social interaction Adaptability Details		
		Recommendations			
	Client-professional relationship	<i>To be treated in Chapter 16</i>			

Even so, experienced buyers and sellers alike pointed to the relevance of emphasizing value over cost in APSs – and that clients are becoming more sophisticated. A ‘rain maker’ at a large international consulting firm elaborates: *‘...to an increasing degree I see decision criteria that concern value creation. ...It concerns what the client believes...that we can offer him in terms of value. This is a criterion that few companies use properly, but those that use it...get much more out of it...are able to develop themselves to a larger degree.* The CFO in a relatively large Norwegian company makes a similar point: *‘...as these consulting companies live off values...it is value drivers that we should be concerned with: What can they do for us? But we see that as a traditional economically thinking firm we easily fall into the role of evaluating them based on the offer size in terms of [dollars and cents].’*

Finally, an interesting point to observe was that there did not always seem to be a linear relationship between benefits and sacrifices in the purchasing processes under study – as suggested by the theory of the market for lemons. For example, in Case 2 the most qualified and suitable supplier was certainly not the most expensive. Thus, by being a sophisticated buyer – incorporating relevant criteria into the evaluation – there seems to be room for selecting firms with a superior benefit-sacrifice combination and ability to create value for the buyer firm. Thus, there might be extensive value to be gained by clients if they carefully consider and evaluate suppliers of APSs.

The empirical findings concerning client selection criteria for APSFs are integrated into the research model in Figure 15-5.

Figure 15-5: Integration of selection criteria into the research model



## Chapter 16: The client-professional relationship and its impact on the client's selection of PSF

### 16.1 Introduction

*'In what we do, I believe that without relationships there is no business.'*

Partner in strategy from a major international IT and management consulting firm

*'The overall thought is totally clear and it concerns both the public and the private markets. It is the relationship that counts - independently of analysis. I would be very surprised if you find that it is something other than the relationship that counts....What drives the big contracts is that a relationship has already been established - a contact or experience between the parties.'*

CEO, Norwegian consulting firm

These quotes illustrate the relevance of relationships for client selection. However, these statements are primarily made by professionals. Based on the frequencies of the different criteria listed above, relationships were not considered as important by the clients as by the professionals. The quote by the purchasing manager at a major Norwegian publically listed firm illustrates the somewhat more nuanced perspective on the relevance of the client-professional relationship: *'Relationships are, if not decisive, at least important.'* Beyond identification of the relevance of the relationship, the following chapter aims to understand 'how' relationships impact client selection.

The theoretical models presented previously pointed to two alternative routes through which the client-professional relationship was found to impact the client's selection of APSFs. First, the selection of purchasing process and whether a relationship based process was used was seen as relevant. Secondly, the net relationship value and its impact on supplier selection within a competitive process were pointed out as a second route. These two different types of effects were referred above to as Route 1 and 2 respectively.

The two routes of impact were also identified in the empirical data. First, the empirical data suggested that it is essential to understand the structural impact in terms of how the relationships impact purchasing processes. Additionally, the empirical data gave extensive insight concerning how - in terms of the sub-dimensions of the relationship - that impacts client value and selection. Each of these routes will be addressed below. The different routes have to my knowledge not been treated in past research. Among the

different points of view, the value perspective was most extensively treated in the literature and in the empirical data by the informants and will be discussed in the most depth.

However, to understand how client-professional relationships impact the selection of APSFs by clients, it is essential to understand what clients mean by the term ‘client-professional relationship’. Thus, the following is chapter is initiated by a section where the relationship – as perceived by clients and APSF representatives – is defined in Section 16.2. In turn, details on how relationships impact the purchasing process and client value perceptions are treated in Sections 16.3 and 16.4. As a final Section 16.5, a summary and point of departure is offered.

### **16.2 The client-professional relationship defined**

By separating out all the statements from the empirical material regarding buyers’ and sellers’ description of the relationship and analyzing this material through sub-categorization and identification of common themes, the client-professional relationship was identified as existing on two main levels: the firm level and the individual level. Buyers and sellers referred to relationships as involving both repeated economic interactions at the firm level and as consisting of personal components at the individual level. Each of these levels will be treated in the following in Section 16.2.1 and 16.2.2.

The firm level relationship was shown to exist where the supplier had been hired by the buyer multiple times and the relationship was embedded in multiple individuals. At the same time, buyers and professionals pointed out that a relationship could exist across levels so that it existed both at the firm level and the individual level. Thus, the relationship involved both repeated transactions and interactions; and individual social and psychological connections. While it was deemed possible for the relationship to exist only at the individual level, the buyers did not seem to define the relationship merely as repeated transactions. The relational nature of professional services suggested that to the degree that a firm relationship existed, an individual level social relationship was also present. Thus, based on the buyer insight, it appeared that the individual level relationship was the central part of the client-professional relationship.

The firm level relationship concerned repeated economic transactions. The social nature of the relationship was related to the individual level – where ‘love at first sight’ was mentioned to be one manner in which a relationship could become established. It was assumed that a relationship could develop from the first interaction. Thus, a relationship was seen as something that could either develop over time or something that took place ‘then and there’. As pointed out by the CEO of a Norwegian consulting firm: ‘...*in those*

*instances where relationships that just happen then and there are decisive, it is likely to be in situations where otherwise as suppliers, they are relatively equal.'*

Based on the above presented buyer and supplier characteristics, three main traits illustrate how buyers and sellers of APSs define the client-professional relationship:

- It is an individual social connection that could be based on repeated economic transactions
- It can be individual, or individual and firm based.
- It can develop over time or be established 'then and there'

In the following, the firm and individual level relationship are discussed separately to further define the relationship. In turn, the holders of the relationship and the interaction across the individual and firm level relationship are investigated to clarify the concept and nature of client-professional relationships as described by those involved in it.

### **16.2.1 Firm level relationship**

The characteristics of what constitutes a firm relationship are different across industries as well as across buyer and seller companies. While a relationship within legal services could imply weekly interactions, relationships within management consulting could be based on two to three projects a year, with limited meetings in between. In some cases, there might be considerable time between two projects. Still, a relationship is defined to exist by the buyers and sellers. The commonality across the client-professional relationship at the firm level across industries is the notion of pre-selection, which was discussed above relative to the purchasing process.

Thus, the variation in firm relationships was defined by the variation in types of pre-selection. Building on the insight from the practitioners, two key dimensions can be used to distinguish types of firm relationships: (A) level of formality and the degree to which the relationship is based on a written or relational contract and (B) exclusivity of the relationships. These two dimensions will be used in the following to develop a (C) typology of firm level relationships.

#### *(A) Level of formality*

In terms of relationship formality, one extreme case can be illustrated by a frame agreement, where the supplier or suppliers have a contract regulating services rendered during a specific time. Frame agreements are, as pointed out above, used extensively in the public sector. However, these types of firm level relationships are becoming increasingly relevant in the private

sector – also noted above. In fact, these types of contracts are the primary formal mechanism used in the client-professional firm relationship. As stated by a leading partner at a major international management consulting firm: *‘...frame agreements are in a way formalized relationships.’*

At the other end of the formal-informal continuum, the respondents mention the notion of a ‘family supplier’, which is a relational agreement that is highly informal. These types of agreements are largely based on relationship based mechanisms such as trust, commitment and relational norms, which impact the repeated use of a supplier over time. These types of relationships are particularly relevant within law, as pointed out previously. An example of the ‘family supplier’ can be illustrated by a quote by a strategy manager at a major international Norwegian firm, relative to its financial advisors: *...the consultant is used as a dialogue partner for the board of directors in strategy definitions.’*

As pointed out above, the empirical evidence showed that the firm relationship led to individual level relationships. At the same time, buyers pointed to these types of non-contractual firm relationships as the sum of a number of personal relationships. This perspective on a firm relationship can be illustrated by the following quote from a strategy director at a major Norwegian international publically traded firm: *‘...firm relationships are, call it a form of accumulation of personal relationships...you build up more and more connection points... from your organization to...the other organization...and there is communication across these points in your own organization so that the management gets a varied impression of what the overall connection is...’.*

The empirical research showed that the buyer can develop goodwill relative to a particular supplier – given that the buyer firm is satisfied with the past performance of the PSF. In turn, the goodwill led to increased legitimacy of a particular supplier firm and an institutionalization of the relationship. While this can be considered a resource of the APSF, it is also a trait of the relationship. There were examples in the interviews where it was part of the client’s culture and habits to use a certain consulting firm. As pointed out by the business development manager at a sub-division of a major Norwegian publically traded firm: *‘I believe that, because one has been in it for so long, because one has that kind of track record and history in the firm, then it becomes legitimate to use these [PSFs].* The CEO of a Norwegian consulting firm, however, limits the relevance of the legitimacy based firm relationship: *‘It is very seldom I hear about institutional relationships that are of significance... But it is clear that it can develop into a custom and the use increase.’*

The empirical data suggested that the level of formality also impacts the nature of the relationship. In the case of formal relationships, the contract was suggested to cut across individuals in the firm. On the other hand, non-formal relationships were not as equally distributed, so that rather than everybody in a client firm knowing everybody in the PSF, only three or four people knew one another. As pointed out by a human resource manager at a major publically owned firm: *'When it comes to [PSF X] there are three people we relate to. It is the same for [PSF Y].'*

The interviews illustrated that large firms are likely to have different relationships across divisions and that these types of relationship might have different significance. Thus, in a number of cases, the divisional level rather than the corporate level was the relevant level for the firm relationship. The notion of a firm as it is described here incorporates relationships at the business unit and division level.

*(B) Exclusivity*

In addition to the level of formality, there was a large difference across relationships in terms of whether they were exclusive or not. At one extreme there were a number of cases which included the single source relationship in the form of a 'family supplier' or a single frame agreement. At the other extreme there were situations where the firm had relationships with multiple suppliers and where a competitive approach was taken to decide which supplier to use for each assignment. As pointed out above, the formal and non-formal non-exclusive relationships were used extensively both in the private and public sectors. In fact, most clients seem to rely on more companies for the same types of services. As pointed out by a lead partner at a leading international management consulting firm: *'The relationship is more important than ever, ...but it is less exclusive.'*

Some consultants pointed out that the parallel relationships are often linked to different decision makers. However, others emphasized that the parallel relationships could be related to the same decision maker in the client organization. A partner in a major international consulting firm commented: *'My close relationships also make decisions to use others instead of me or us.'*

At the same time, professionals pointed out that one supplier was often used more often than others. As illustrated by the partner of law firm: *'It is often so that there are primary and secondary firms – so that if the primary firm cannot be used or has interest conflicts or whatever it might be, they go for the secondary. Most do it on the large frame agreements – that they have a primary and a secondary. Parallel frame agreements have been somewhat*

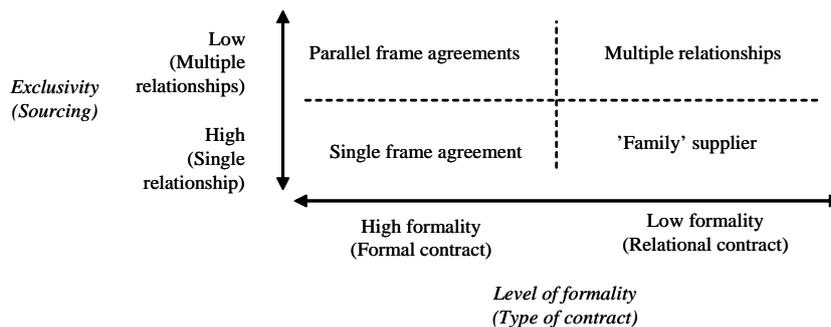
*difficult in respect to public purchasing, but in the private sector they have regular frame agreements with more suppliers.'*

One point that should be added to the notion of parallel relationships is the limitation in terms of the number of relationships a given firm would be able to undertake. Developing relationships is time consuming and costly due to the demand for repeated interaction. As noted by a deputy CEO: *'...it is clear that this type of relationship with people, over time, we only manage to retain with a handful of actors, not with very many.'*

*(C) Typology of firm level relationships*

Based on the insight and categorization of the practitioner interviews, a typology of four types of relationships could be developed based on two dimensions: level of exclusivity; and level of formality, as shown in Figure 16-1.

*Figure 16-1: Typology of firm based client-professional relationships*



Four main types of firm relationships were identified based on the exclusivity and formality dimensions. At one end there was the traditional notion of the client-professional relationship – ‘the family supplier’, which was the single source relationship based on relational rather than formal contracts. In the private sector, single source relationships were also used, but these relationships were more formal and initially based on a competition – referred to as the single frame agreement.

As an alternative to the single source relationships, the parallel frame agreements were becoming more and more prevalent within both the public and private sectors. These agreements incorporate multiple formal relationships, in which the social relationships could exist or be relatively scarce. In the private sector, multiple informal relationships were extensively used as discussed above.

### 16.2.2 Individual level relationship

Ultimately, relationships exist between people, not firms. Buyers pointed out that there is a personal dimension to the client-professional relationship which is important. As pointed out by the business development manager at a division of a major Norwegian company: *'...people and managers in the firm need to have relationships...one should not be so naïve as to believe that it is the firm and that it is a formal matter...In the end it is people.'*

The CFO of a major Norwegian publically traded company also points to the relevance of the individual level relationship: *'We have [relationships]...with firms, but the most important for us is to have relationships with individuals...'* The personal relationship was also relevant in the case of the formal frame agreements. As pointed out by the partner of a law firm: *'They take direct contact with the lawyer they want to use...it is often so that on the frame agreement you find someone you have a relationship with already.'*

From the client side, the most senior holder of the client-professional relationship was the CEO. To the degree that the CEO had strong relationships, other people's relationships were often less relevant. As illustrated by the following quote by a partner of a leading management consulting firm, in describing the relationship that the firm has:

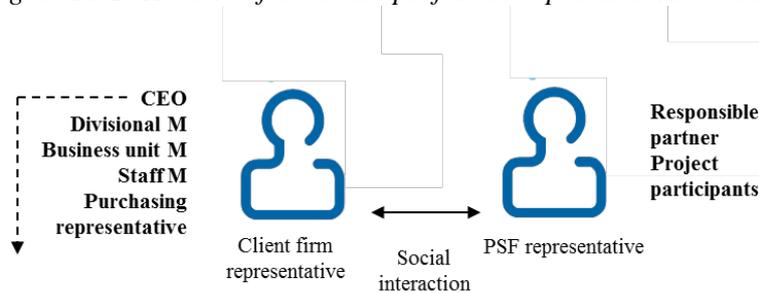
*'There are very different relationships. In many of the companies we have direct and confidential relationships with the CEO. Then there are other firms where we are accepted by the CEO and have relationships at the next levels. It is a little bit different. In some companies the CEO...has full control over our types of services, but in other firms it is still the CEO, but he delegates down and rather uses us at the next level.'*

Where the CEO did not take an active role in the selection of consultants – but rather accepted the choice of staff and line managers, those were the ones holding the relationships. Thus, divisional and business unit managers, as well as staff function management in the form of strategy directors, judicial directors, communication directors and human resource managers were involved in the relationship in these cases.

The data also suggested that the purchasing functions in the client organizations were becoming increasingly involved in these types of purchasing processes. For example in Case 1a, the relationship that the purchaser had with the leading partner of one of the service suppliers had some impact on the selection, in the sense that the purchasing representative talked positively about that supplier firm.

On the side of the PSFs, those involved in selling the services tended to be important for client selection. Thus, the relevant client partner was typically the person involved in the relationship. However, in cases where a company has used a PSF in the past, the relationships with other professionals working on the given issues were relevant. This is illustrated by Case 2, where the experience that the buyers had with the particular individuals of the new consulting firm – TriangleCons – did seem to have a positive effect on the selection of firm. An overview of relevant people involved in the client-professional relationship at the client and the PSF is shown in Figure 16-2. The dotted arrow in the figure indicates that the relevance of those below the CEO is dependent on the degree to which the CEO delegates the decision power related to the hiring of the professionals.

Figure 16-2: Holders of the client-professional personal relationship



In describing the individual level client-professional relationship, two characteristics were pointed out by buyers and sellers concerning the nature of the relationship. In particular, informants defined the individual relationship as (A) personal and (B) professional. Each of these characteristics will be discussed in the following. In turn, a typology of individual level client-professional relationships is proposed.

#### (A) Personal relationship

The relevance of a personal relationship – in the form of a personal history together – was pointed out as relevant by both sellers and buyers. As stated by the partner of a leading international consulting firm:

*‘Some of the people I have that type of relationship with now, I went to school with. The relationship started there. It is a personal relationship that has been there since then. I have known them since I was seven years old or fourteen years old – or what school it was I met them at, and continued nurturing the relationship. Then it becomes very personal and very long lasting... Most relationships you link back to a personal relationship outside of the job. People you have gone to school with, know socially, or meet in*

*other settings. That is often the starting point. But the relationship has developed through assignments, which strengthen and reinforce it.'*

The function of personal relationships is further illustrated by a strategy partner in a major international management and IT-consulting firm:  
*The deputy CEO had a personal relationship with my main rival that won [the assignment]...*

*(B) Professional relationship*

While personal relationships were pointed out as important, buyers and sellers alike emphasized that relationships should not be too close and private. For example, if a very close friend or the brother of a consulting partner were in a key position in a client firm, he would be likely to be very cautious about buying consulting services from his brother. Thus, private relationships – which are very close – are not likely to develop into client-professional relationships. As stated by the partner of a leading management consulting firm: *'If the personal relationship is very strong, it is difficult to make it into a large client. Then it is almost a barrier...it is better to use acquaintances than near friends.'*

The CEO of Norwegian consulting firm also pointed to the same limited relevance of private relationships: *'There will be examples of 'garden fence' relationships and such...but that is almost non-existent. Relationships that are not first and foremost tied to the professional, and past experience with each other in the roles we have...they make up a very small part – have very little significance...People that have sororities – that graduated in the same year from [business school] and such – it almost does not exist. There could be some of it, but it has marginal significance I would say.'* He continued: *'It is a consistent experience – that to come from a role and into a consultant role – and to take the old relationships in – that you will sit and harvest in the role as a consultant...That is a true misunderstanding.'*

Buyers also point to the business orientation and professional nature of the relationship. As pointed out by the strategy manager at a major international publically traded firm: *'The guy who is a partner at [PSF X] has good contact with our CEO...How many times they meet socially and have dinner and how many times he is invited for weekend ski trips I do not know...It has been very business oriented. They act very business oriented about it.'*

One reason for the reluctance towards using personal relationships concerned risk and the perceived danger of compromising the purchasing situation and the buyer's integrity. As pointed out by the senior partner at a major leading international consulting firm: *'The other is that [the buyer has] over time become very cautious about being in situations that*

*compromise...the integrity of the purchasing situation.*' In some industries such as law and accounting the relationship is regulated to protect the PSF's independence. As pointed out by a partner of a Norwegian law firm: *'It is important to protect independence. Even though we are hired by the client, it does not mean that we should agree with the client. So the relationship must not be too tight.'* However, in many APS industries, it is primarily up to the buyers and sellers to protect their own integrity.

Another reason for being cautious about buying from people to whom one has a strong personal relationship is personal risk. It was considered too great a risk for the personal relationship to become involved professionally. As pointed out by the partner of a recruiting firm: *'...we are good friends: If I do a bad job he must fire me – and that could hurt our personal relationship.'* Thus, it was considered much easier to terminate a relationship if there was no personal risk. As illustrated in Case 2 relative to the potential termination of a relationship: *'Even though we know them, it is not a problem if you consider that they should not be selected. We do not know them that well. We do not socialize privately or anything.'*

Finally, there had been a change in the life situation of professionals and their clients, which was suggested to impact the degree to which personal and professional relationships overlap. As pointed out by the same senior partner at the major leading international consulting firm: *'I experience that the business world's wish to participate in things outside projects – the desire is decreasing. There are more reasons; people are generally more busy than before...and because people work a lot they are more parsimonious about their time.'*

#### *(1) Typology of individual level relationships*

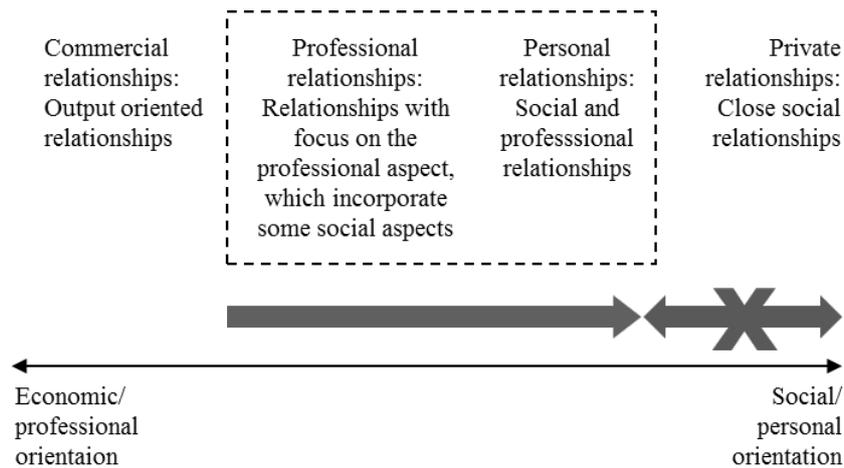
Based on the empirical material, two main categories of the client-professional relationships were identified: (1) the professional relationships dominated and based on a business orientation and (2) the personal relationship dominated by social interaction. These different types of relationship are illustrated in Figure 16-3.

While it was suggested that a client-professional relationship could start as a commercial relationship, for example in the form of a parallel frame agreement, the empirical material indicated that the relational nature of professional services suggests that the relationship is ultimately individual. Many buyers and professionals pointed to the relationship as a combination of professional and social characteristics and referred to it as a professional relationship. This type of relationship is illustrated by the partner at a leading international consulting firm who pointed out: *'...it is not so close, there is*

*no personal character that makes me feel that I think it is too tight, and when we have a discussion we discuss as representatives of our companies.'*

Some professionals, however, saw great benefits in making the relationship personal. As pointed out by the CEO of a leading communication consulting firm: *'My experience is that when you manage to move the client relationship over to the private arena and start to care about customers as people, that is when the customer relationship takes off, and it is then hard to fire them and it then becomes easy to address difficult situations....'* Even so, the empirical data suggested that there are risks related to establishing a too tight relationship out of a professional one. As suggested by a human resources manager in a large publically owned firm: *'There is...a danger that the relationship becomes too close. It is difficult and it is easy to rely on the one you know.'*

Figure 16-3: Typology of individual level client-professional relationship



A senior consultant at a major international management consulting firm elaborates on the nature of the relationship: *'It is a people based relationship with commercial elements. It is a relationship with people in a firm... We use personal means. We call and ask: how are you? We play tennis. I do not know what came first. Some of them you invite to your 60<sup>th</sup> birthday. It is permitted to be friends. When it comes to friends, then I do not want a friend as a client, but I can have a client as a friend.'*

Thus, it seems that the personal relationships that exist developed from the professional side as opposed to from the private side, as illustrated by the

arrow from left to right in Figure 16-3. As pointed out above, very few relationships come from close private relationships – illustrated by the crossed out arrow from right to left in the same figure. Also, to the degree that the commercial element deteriorated in the client-professional relationship, the empirical material suggested that it is converted into more of a private relationship – and should be terminated as a client-professional relationship. As illustrated by the partner of a Norwegian management consulting firm: *‘When the parties do not get anything out of it and feel that it does not give anything....If it is personal it can lead to loyalty to the client. It can be personified....so I should have stopped before. Not because the relationships are bad, but with respect to real impact.’* This ‘privatization’ of the relationship is illustrated by the arrow from the right to the left in Figure 16-3.

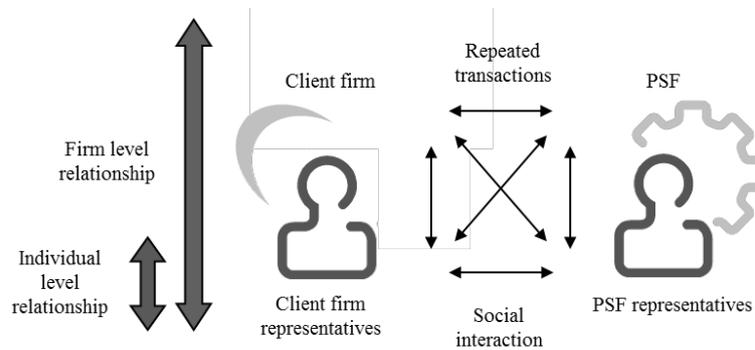
### **16.2.3 Summary and point of departure**

The nature of the client-professional relationships described above suggests that these relationships are fundamentally individual and social, but that the individual level relationship can be based on or develop into a relationship at the firm level. Thus, understanding the individual and firm level together seems important – especially relative to how value is created for clients from these relationships.

Figure 16-4 illustrates the client-professional relationship as defined based on the empirical data. The firm level relationship is illustrated by the ‘moon’ and the ‘sun’ at the back of the individuals. Based on the description above and following the relational nature of professional services, the empirical material suggested that while the relationship can be only individual, the relationship did not exist only at the firm level. While a relationship can be formally established as a firm level relationship – for example in the form of a frame agreement – it instantly became individual as services were created.

The individual level relationship was shown to exist within established firm relationships, or be the source of these relationships. For example, firm level relationships were described as something that developed from the accumulation of individual level relationships. The transition of the relationship across levels is indicated by the gray vertical arrows in Figure 16-4.

Figure 16-4: The client-professional relationship defined



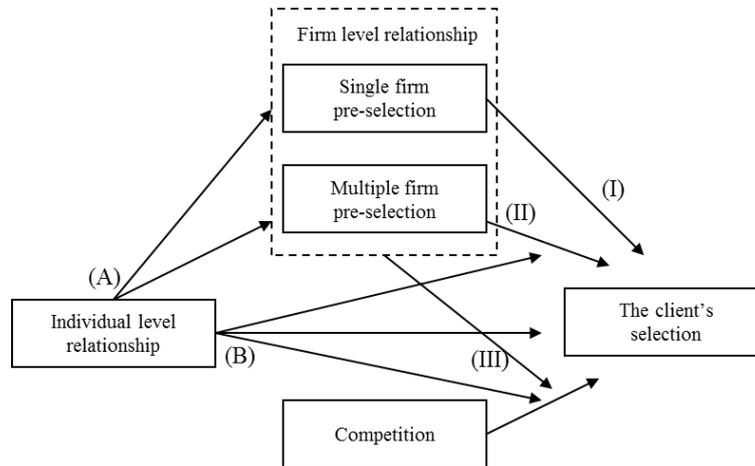
### 16.3 Relationship impact on the purchasing process

Above, the relationship was described as a firm and individual level concept. The impact that the relationship had on how professional services were selected and the type of purchasing process used was also identified to be present at both these levels. The relationship impacted at the firm level through the type of purchasing process used as clients pre-selected PSFs through single or multiple relationships. The individual level relationship was, however, also found to impact the degree to which client firms chose to develop a firm level relationship in the first place – as discussed above. The structural relationship impact, which concerns the relationship impact of the selection of purchasing process, is shown in Figure 17-1. The impact of the firm level (16.3.1) and individual level (16.3.2) relationship will be considered in detail in the following.

#### 16.3.1 Firm level impact

At the firm level, the client-professional relationship had an impact on the client's final selection of PSF through the pre-selection. Where firms had formally or informally pre-selected a single PSF in a given area of services, the selection for the single assignment was given. This effect is shown by the arrow denoted (I) in Figure 17-1. In the case of multi-firm pre-selection, the relationship was likely to impact who would be selected to be on a list of potential candidates for a given assignment. By being among the final list of potential candidates, the pre-selection impacted the PSF's likelihood of being selected, as illustrated by arrow denoted (II) in the figure above.

Figure 16-5: Overview of identified relationship effects



The firm level relationship was pointed out to have an impact on the selection of firm where the selection process was competitive. A partner of an international management consulting firm commented: *'Most important is likely to be: who has worked with the firm in the past?'* Companies that had worked with a buyer previously were likely to benefit from a legitimization effect – including in cases where there was a competition. An ex deputy CEO noted that: *'In a way, the relationship is a pre-qualification of the company. When you run a competition for a job, the pre-qualification of the relationship can mean that we prefer those we have worked with in the past.'* The effect of pre-selection on the likelihood of being selected in competitive processes is illustrated by arrow (III) above.

### 16.3.2 Individual level impact

At the individual level, two main effects were identified: (A) an indirect effect where the individual level relationship impacted the development of a single or multiple firm relationships and (B) a direct effect where the relationship was used to evaluate the supplier more positively.

#### (A) Indirect effect

Where an individual level relationship existed, multiple cases illustrated how the relationship became a firm level phenomenon over time and thereby impacted the client firm's pre-selection of buyer firm. A partner at an international management consulting firm illustrated this process: *'I have a relationship with him that originated from the first assignment I did there. I*

*have brought in many different people in my work for him and these individuals have also developed a good relationship with him. He has got to know a good number of people from [our firm] over time, who he respects and knows because they have done work for him. So therefore he has a relationship with our firm in addition to a relationship with me.'* Another partner at a major international consulting firm made a similar point: *'...when I started here I had some personal relationships that were very important. Over time, very many of my strong relationships are relationships...where the client sees [the firm] behind me.'*

(B) Direct effect

The individual level relationship was identified as having two main direct impacts on selection by clients: (1) accessing knowledge about the availability of assignments – *the access effect*; and (2) accessing knowledge about the particular needs of the buyer – *the customization effect*. Each of these effects is discussed in detail below. These effects impact both directly and indirectly and are captured together in the three arrows under the effect (B) in Figure 16-5.

(1) The access effect

Individual level relationships with client decision makers enabled the PSFs to gather information about the existence of projects. In turn, this information enabled them to be selected without other suppliers being asked to compete, or get a place on the list of relevant suppliers that were to be considered for a particular assignment. This was particularly true in the private sector. The ex CEO of a national consulting firm stated: *'A friend of mine is the manager of a large organization...which is in trouble. I think I can help her. So I call her and say: 'maybe we could contribute something here? Perhaps we can come and present ourselves? Since we have a good relationship she says yes...If it is someone you know, you'll get access –at least once; and if you do a good job, you'll have a good relationship going forward.'*

The strategy manager of a major Norwegian company made a similar point: *'Those that succeed are those that manage to develop a personal relationship with very central decision makers in the system, which typically would be to get access to the CEO and other executives and people in the management team.'*

In addition to illustrating the access mechanism of individual level relationships, the quote above also highlights that the individual's ability to impact selection is dependent on the individual(s) that the client has a relationship with. While this is likely to differ across situations, the firm's

CEO and other key management representatives were identified as particularly relevant decision makers.

The personal relationship also impacted knowledge of the availability of assignments in the public sector. While competitions are listed on Doffin, individual relationships were used – for example in Case 1a – to ensure that suppliers were informed about the upcoming competition. Additionally, personal relationships were seen as essential to get assignments below the NOK 200 000 limit for the public purchasing regulation<sup>21</sup>. As pointed out by the CEO of a Norwegian consulting firm working in the public sector, on why relationships are important: *‘...they are important in the sense that...by making a call...there is a short-cut to assignments....you know each other, you know what to deliver...’*

(2) The customization effect

In addition to enabling access, the relationship has an important function in helping the PSF understand what the client wants and to tailor the bid in the case of multiple relationships or a competition. As pointed out by a partner in strategy from a major international management and IT-consulting firm relative to why they lost a project: *‘The fact that they are personal friends and talk to each other each week and have a dialogue – the preconditions to develop a much better and precise offer relative to the challenges of the client, were much more present for them than for us, who did not know the business or have relationships. If you know them, know the business, then you can target the offer much better...’*

The personal relationship is also important for customization in the public sector. As noted by the CEO of a Norwegian consulting company: *‘If there is someone you know, you can tell them that you are making them an offer; Can we have lunch today, so you can explain what you mean by the different expressions. This is not cheating, but you get the meaning of their request for a proposal. You get to answer what they have asked for. That can often be difficult in the public sector...You get a different insight if you know someone who is working with it. And I often think that if we do not have any relationships there are others that do, and they will get it.’*

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<sup>21</sup> LOV-1999-07-16-69-§11, FOR-2001-06-15-616. Since the processes were observed, there has been a change in the regulation of the law (FOR-2006-04-07-402). However, the previous law applied when the case study was conducted. The NOK 200 000 limit has been changed to NOK 500 000 by the Norwegian Government. This same amount applies to the new regulations (FOR-2006-04-07-402).

#### 16.4 The impact of client-client-professional relationships on client perceived relationship value

In the following, the relationship impact is further explored through an in-depth study of client relationship value. As pointed out above, client relationship value can be defined as the sum of benefits and sacrifices of the relationship. To get at the value and tap into the benefits and sacrifices, this study has sought to determine the dimensions of the client-professional relationships which are of relevance for the client's perception of value (16.4.1). In turn, these dimensions are described in depth (16.4.2). Following this presentation, insights on how the different dimensions impact client perceived value is treated (16.4.3). Finally, a summary and point of departure is presented as a final part of this section (16.4.4).

##### 16.4.1 Relevance of client-professional relationship and its sub-dimensions for client selection

To develop an understanding of the relevance of client-professional relationships as a source of client perceived value, the degree to which the client-professional relationship and its sub-dimensions were mentioned among clients as selection criteria were considered. The frequency to which the clients and professionals pointed to relationship based selection criteria is listed in Table 16-1. This table is an extension of Table 15-1, which dealt with the other relevant selection criteria.

*Table 16-1: Overview over relationship based selection criteria*

Type of selection criteria	Interviews private (20)	Interviews public (21)	Buyer interviews (41)	Interviews APSFs (30)	Total (71)
<b>Relationship</b>	35 %	43 %	39 %	87 %	59 %
Past experience	60 %	38 %	49 %	47 %	48 %
PSF knows client	50 %	43 %	46 %	47 %	46 %
Client knows PSF	40 %	10 %	24 %	23 %	24 %
Trust	40 %	0 %	20 %	73 %	42 %
Chemistry/fit	55 %	24 %	39 %	50 %	44 %

The client-professional relationship and the sub-dimensions of the relationship were frequently pointed out among buyers and sellers of professional services as relevant selection criteria. Thus, the data indicates that the client-professional relationship and its sub-dimensions are important criteria. At a general level, relationships were mentioned less frequently than price, but more frequently than knowledge.

However, one should recognize the difference in frequency of the mentioning of relationships and its sub-dimensions across buyers and sellers. Among APSFs relationship was the most frequently mentioned criteria.

Additionally, trust was mentioned as the second most important overall criteria, and seen as equally important as knowledge and price.

Buyers were not as concerned with this criterion at a general level. Also, it is interesting to note that the client-professional relationship at a general level is most frequently mentioned as a selection criterion in the public sector. Also, from a buyer perspective, trust was not pointed out as of particular relevance, and only 20 % of the buyers were concerned with this criterion and all of the buyers mentioning trust came from the private sector. Thus, it seemed that trust was not an extensively used criterion in general, and of very limited relevance in the public sector.

Buyers and sellers alike primarily talked about relationship advantages. However, to get at the sacrifices of the relationships, cases where buyers had selected other suppliers than those they had a relationship to where used. In addition, and beyond their description of relationships as selection criteria, buyers and professionals alike pointed to a relationship as something that could be a sacrifice and which could have a negative impact on the client's perceived value. As noted by the strategy executive at a major Norwegian traded international firm: *'...you can have relationships with a negative prefix...'* Based on detailed analysis of the data, two main types of relational sacrifices were identified: (1) PSF complacency and (2) knowledge saturation.

Each of the relationship benefits and sacrifices will be described in-depth the following. The benefits and sacrifices were pointed out across the individual and firm level of the relationship and will be looked at together in the following. To the degree that the firm and individual level were separated by the informants, this will be noted below in the descriptions.

#### **16.4.2 Description of relationship benefits and sacrifices**

Based on the buyers' and the PSF informants' descriptions of relevant criteria in the selection of professional services, four main characteristics of the relationship were pointed out as particularly beneficial and important for selection: (A) Satisfaction with past experience, (B) Contextual relational knowledge, which include the APSFs knowledge of the client and the client's knowledge of the APSF, (C) Trust, and (D) Chemistry and fit. Additionally, relationship sacrifices in the form of (E) PSF complacency and (F) knowledge saturation were mentioned. Table 16-2 gives an overview of the details of the dimensions of the relationship based selection criteria. Each of these dimensions of client-relationship value will be described in detail in the following.

(A) Satisfaction with past experience

The experience the buyers had with a particular person and firm was pointed out as important for the establishment and development of relationships. The evaluation of the experience was dependent on the combination of the firm and its employees. A quote by a buyer of leadership development services further illustrates the relevance of individuals in addition to the firm: *‘They are good, and I am very satisfied with [person X].’*

Table 16-2: Overview of key dimensions of the client-relationship

Group of relationship criteria	Dimension	Category	Sub-category	Indicator
Benefits	Past experience	Satisfaction (individual & firm)	Above expectations	
			In moments of truth	
	Context knowledge	APSF knowledge of clients	Individual	Particular people
			Firm	Strategy
				Organization
				Processes
		Client's knowledge of APSF	Individual strengths	
	Trust	Intensions		
Chemistry & fit	Chemistry	Gut feeling		
		Fit	Culture alignment	
			Value alignment	
Sacrifices	Complacency	Lack of priority & effort		
	Knowledge saturation	Lack of renewal		

In particular, informants pointed out that the experience had to be of a certain quality. The person responsible for strategy consulting at an IT oriented consulting firm noted: *‘...you create lasting relationships based on one thing – delivering quality.’* The quality needs to be consistent over time: the organizational and communication director of a Norwegian listed company states: *‘A relationship demands that you ‘prove, prove, prove’.*

The quality was proposed to enable success: *‘Relationships – where do they come from? ...they most often...come through projects....where...both they and the company have experienced real success.’* To the degree that there was no success, the relationship was likely to be abandoned: as pointed out by the strategy director of a major international publically traded firm concerning recruiting and investment banking: *‘...I have had some positive [experiences] and then I return...and some negative and ...Then I try someone else....There is a tendency to try someone else when you are not satisfied...if they give bad advice once it is very easy to say: now we’re going to someone else.’*

An experience of success in most cases referred to buyer satisfaction. As noted by the strategy manager at a major Norwegian international publically traded firm, in his attempt to describe a long-term relationship with an investment bank: *'...it concerns success...satisfaction with the way they have done earlier transactions...it has worked well; we are very pleased with the work they have done.'* The CFO of a privately held Norwegian company made the same point: *'We stick with them because we are satisfied...'*

The level of satisfaction was pointed out as related to the delivery of quality above the level of expectation. A partner within the area of strategy in a major international IT-consulting firm stated: *'Our business concerns building lasting client relationships. And you do that by delivering quality, preferably a little better than expected every time...'*

Thus, buyers and suppliers alike emphasized the relevance of satisfaction with the actual outcome for the continuation of a relationship. In turn, satisfaction was linked to quality and the ability to meet expectations. Thus, the following equation describes the buyer's level of satisfaction:

$$\frac{\text{Perceived delivered quality}}{\text{Expected quality}} = \text{Level of satisfaction with past experience}$$

To the extent that the perceived delivered quality was larger than the expected quality, the buyer was likely to be satisfied – and the satisfaction equation larger than one. As the level of satisfaction decreased below one, the buyer was increasingly dissatisfied, which did not promote the future development of a relationship. The same equation presented above could be used to describe whether the buyers perceived that the firm had 'delivered' or not – which was a concept extensively used to describe the experience with suppliers by buyer representatives. Maister (1993) suggests a similar equation where satisfaction equals perception minus expectations.

There were some instances that seemed to be more important to ensure satisfaction and the development of a relationship than others. In particular, it was emphasized that there might be certain essential key moments where it was essential to perform in order to achieve satisfaction: referred to as 'moments of truth' (in accordance with Carlson (1987)). As pointed out by a partner at a leading management consulting firm: *'...you work tightly with them, and then it is... 'moments of truth'...it can be critical moments...that are extremely important before some kind of delivery, ...or you are tested on issues related to certain people in the organization or there are things that are really important for the individual....To deliver on those moments of truth is very important.'*

The evaluation of satisfaction or ability to deliver was most cases highly subjective and uncertain. Both the actual quality delivered and the expectations were often perceived to be very difficult to determine objectively. One example that illustrates this was found in Case 2 where different representatives in the buying centre seemed to disagree as to whether the firm had delivered or not.

Another way of illustrating the subjectivity is the transformation of opinion relative to a potential supplier by the person in charge of the purchasing initiative in Case 1a. Initially, he was pointing out that they as a firm already had a contract with a supplier, and this should be maintained because they were good and had delivered in the past. The buyer said the following: *'It cannot be swept under the carpet that they have provided us with many good people.'* However, as the process unfolded his impression changed. As pointed out by the same executive in a later meeting: *'They have not always been able to deliver.'*

*(B) Contextual relational knowledge*

Another feature of the client-professional relationship that was pointed out as essential by buyers was the contextual knowledge rooted in the relationship. This 'knowledge of' dimension of the relationship does not only concern the degree to which the PSF has an understanding of the buyer firm and its representatives, but also includes the degree to which the buyer firm and its representatives have an understanding of the PSF. The business developer of a stock traded company in Norway illustrated these dimensions in the following way: *'We have a relationship with these lawyers – with the specific people that know us and vice versa.'* The following quote by the head of a major division of one of Norway's largest firms further illustrates the relevance of 'knowledge of': *'We have worked together on many issues – especially [person X] – and he knows our questions. We are close to him and know what he can and cannot do. It goes both ways.'*

The strategy manager of a major Norwegian publically traded firm further pointed out: *'There are 3-4 people at [PSF X] that have followed us for ten years now, and now a new person has come in and very quickly understood it...it is not a personal relationship, it is more: we know their way of thinking and they know ours. And they know our weaknesses and...it can be good to avoid explaining everything again every time...it is not because of the person within [PSF X] that we choose [PSF X]. It is the knowledge that they have of us. And to be honest, we know how they work and that means partly we do not select them for certain types of studies, and partly when they produce their evaluations we give them more or less weight – we know how they think.'*

The contextual knowledge concerned both the good and the bad – it was about understanding each other's strengths as well as weaknesses. As pointed out by the human resource manager at a major publically owned firm: *'When you know one other it is for both the good and the bad.'* In fact, one buyer questioned the relevance of contextual knowledge based on the extensive dynamics of buyers. As the organization and leadership development executive at a major Norwegian firm states: *'...I think that stereotypes and fixed answers on what a company is develop easily – and much happens during very few years...to settle for the fact that the knowledge [of the firm] has been gained once and for all...you need to make the extra effort and go the extra mile anyway.'* Even so, a dominant number of buyers pointed to the contextual knowledge as essential for selection.

In the following, each of these types of knowledge: (1) the APSF's knowledge about the client and (2) the client's knowledge of the APSF knowledge is described in more depth.

*(1) The APSF knowledge of the client*

This knowledge concerned both the knowledge that the PSF had about the client firm and individuals within the firm. A senior manager within business development at a major Norwegian publically owned firm described the benefit of repeatedly using the same supplier in the following way: *'They have a basic understanding of [our company] and understand a lot. That is worth a great deal. They know the people and know who it is worth talking to.'* The following quote by a development manager at a major publically owned firm also illustrates the relevance of PSF client knowledge: *'They have knowledge of [our company] and our strategy. They do not waste time on it...this type of project understanding is gained only by being there over time. That is when you understand the bigger picture. When it comes to strategic change, this type of understanding is essential in this type of project. If it had been an IT-project, it might not have been as important.'* The PSF contextual client knowledge at the firm level was pointed out by buyers as a decisive factor for the selection of supplier. As pointed out by an ICT manager in one of the divisions of a major Norwegian publically owned firm: *'[PSF X] was primarily chosen for its knowledge of [our firm]. They know everything we do.'*

Different types of knowledge of the firm were mentioned by buyers as relevant. In particular, knowledge and understanding of strategy, organization and structure were seen as important. The Chief Executive Officer of communication and organization at a Norwegian publically traded company illustrates the relevance of their understanding of the strategy: *'What is important is that these people know us well and have [our firm's] strategy under their skin....we avoid a full run through of the journal for*

*every treatment.*' The relevance of understanding the organization and structure was stated by a buyer in Case 3: *'They have a good overview over the organization and they know that the structure has changed.'* Additionally, it was pointed out as important to understand the firm's micro processes and politics. As pointed out by the divisional manager at a major Norwegian publically owned firm: *'We dealt with the people over a period of 18 months...the people were close to the decision and knew the mechanisms in the steering committee.'*

While the individual was emphasized, the details of the type of relevant knowledge were limited. However, having individual knowledge of the CEO was pointed out as important by a number of buyers and sellers.

*(2) The client's knowledge about the APSF*

From the buyer point of view the knowledge they had of the people within the PSF was pointed out as important. As emphasized by a supply chain manager relative to the process used to arrive at a supplier of process improvement consulting services: *'We knew people from the firm. We had knowledge of the qualities they have and their previous experience. We had knowledge of the people.'*

The suppliers also recognize the relevance of the knowledge the client had of the PSF. As stated by the partner of a leading international management consulting firm: *'It is to do with insight into our insight. The problems we are asked to solve are often complex. That we solve them correctly has a large impact on the client. The more he knows us, the more certain he can feel that we both have the competence and motivation to solve the problem for him.'*

At the individual level, buyers pointed out personal knowledge of particular people or groups of people as relevant. Arenas from which people knew certain PSF representatives previously included past employees, school, the navy etc. A quote by the organizational and communication director at a major Norwegian firm illustrates the relevance of knowing PSF representatives: *'Personal relationships are also central when it comes to knowing what the consultants are good at. In relation to [PSF X] there was an instance where I saw a need for something that I knew a specific friend in [PSF X] could deliver....'*

*(C) Trust*

Trust was another concept pointed out by buyers and professionals as important in the selection of professional services. As illustrated by a quote by the CEO of a Norwegian management consulting firm: *'If you are buying consulting services, in a way...you are buying...trust.'* A senior consultant at

a Norwegian consulting firm elaborates: *'This is a relationship business. It is the trust that you will solve the task in a good way that is the hook.'*

There was however a large difference across sellers and buyers of APSs in terms of the emphasis they put on trust. While the professionals emphasized trust to an extensive degree, this was not seen as relevant among buyers. Thus, most of the descriptions of the relevance of trust came from PSFs rather than from the buyers. The listing of criteria shown above indicates that suppliers thought that trust was the most important criterion for selection. A senior professional at a major international consulting firm noted: *'The area that has the most effect is trust.'*

The difference in the perceived relevance of trust across buyers and sellers was perceived as problematic. The following quote by a senior advisor in a publically oriented PSF illustrates this point: *'If I have worked on a relationship for a relatively long time...and then there is an offer in your area, but they do not select you – that is a very difficult psychological process. Because I have to face the statement 'I did not select you in this round' – It can create distrust and make it hard to communicate and things like that.'*

In turn, trust was extensively pointed out to be embedded in the relationship. The strategy manager at a major Norwegian international publically traded firm said, in reference to the long-term relationship with an investment bank: *'It concerns trust in key people...'* In terms of understanding what trust was about, the primary dimension mentioned by the professionals who were primarily concerned with trust was intentions. As pointed out by the partner of a Norwegian management consulting firm: *'It has to do with genuine trust and intentions between him and me...When it comes to relationships they are characterized by mutual trust and understanding.'* In particular, the behavioural intentions were pointed out as relevant. As pointed out by the CEO of a Norwegian consulting firm: *'You know you can trust that they will do a good job. That they behave well and do not screw you for money.'*

Trust is a phenomenon that was mentioned to be relevant at both the firm and individual level. As stated by a partner in a Norwegian management consulting firm: *'Relationships and trust are the most important for this to last. They trust us as individuals and as a firm.'* However, the individual level trust – in the form of individual level intentions – was perceived among suppliers to be most important for selection. One CEO of a leading Norwegian consulting firm commented: *'The trust in individuals at the supplier is what is decisive relative to the purchase.'* A partner within strategy consulting also pointed out: *'...there also exists a personal trust related to...being a discussion partner – independently of the project or*

*process...* A legal executive at a major publically traded Norwegian firm points out: *'It is important to have a trust based advisor with an established relationship.'*

Thus, trust seems particularly important as a feature of close relationships. As noted by a leading partner at a leading international consulting firm: *'...you do not start with close relationships to the CEO. You start with separate projects, do a good job, get known in the organization and then they are positive.... It does not happen automatically, but then you become known in the organization and after a number of years you normally build a trust.'* This quote not only illustrates trust as a feature of close relationships, but also points to the fact that trust is something that needs to be developed over time. The CEO of a Norwegian management consulting firm said: *'Then there is trust: Being a manager you are very vulnerable....Trust is something you get – not something you have....It expires and takes a long time to build up.'*

#### (D) Chemistry & fit

Buyers and professionals alike point out the personal chemistry between the client and professional as part of the relationship. As noted by a partner of a major international IT and management consulting firm: *'The relationship also concerns personal chemistry.'*

There are some differences across informants relative to the role of chemistry in the relationship. Some buyers point out that chemistry is not a precondition for a relationship. The head of human resources at a major Norwegian publically listed firm stated: *'It can be that I have a relationship with you even though we do not have chemistry.'* Thus, the relationship could be based on other things such as common history.

However, some of the PSF representatives view chemistry as an important pre-condition and important for the relationship's development. The CEO of a communication agency noted: *'It starts with chemistry and develops into a relationship...You need to get to a certain level; the price, competence and the formalities related to the application need to be in place. When these criteria are met, it boils down to knowledge and not least the chemistry in the relationship.'* A partner in an international management consulting firm elaborates on the need for personal fit in the development of a relationship: *'...when we talk about why things develop there has to be something that fits. One needs to fit each other...It is important for the relationship and positive for the development.'*

The concept of chemistry is difficult to explain as illustrated by the following quote from the CEO of a Norwegian management consulting firm:

*'It has to be something professional – that has to be the basis. Then it is a game – not a play – but a game where things happen in the room where one acts on things and signals and captures looks. There is something sublime about it that I cannot put into words.'* Thus, chemistry represents the emotional and to some extent irrational dimension of buyer selection. As pointed out by the organizational and communication director of a major Norwegian publically listed company, who had previously worked as a consultant: *'The irrational plays a role. When I think back on when I was a consultant, some of my best sales were where things matched – where there was a resonance in some way.'*

While the dimensions mentioned above emphasize elements of the relationship as they develop over time, chemistry was pointed out as an instant phenomenon. The CEO of a Norwegian management consultancy describes the relationship that can instantly happen as the consultant and the client meet: *'...in a meeting, some form of understanding, mutual trust, between more people arises, which means that they get out of the meeting in a better frame of mind, independently of the factual and actual events that took place...Those that find each other...through an understanding... and find 'a bond' or like each other...it happens.'* This instant part of the relationship was found to have both individual and firm level components referred to as (1) personal chemistry and (2) organizational fit. Additionally, brief comments are included concerning the interaction across the personal and organizational level (3).

#### (1) Personal chemistry

The relevance of chemistry at the personal level was pointed out across buyers and sellers. The following quote by a partner at a major international IT and management consulting firm illustrates this: *'The relationships also concern personal chemistry – the purely personal.'*

At the personal level it was pointed out as important that you have a good “gut feeling” and like each other. A partner of a Norwegian management consulting firm said: *'In addition you have this thing about liking the face. It concerns the first time we meet...and what happens after that.'* The likeability was described as two-sided. As pointed out by a senior executive at a major international consulting firm: *'Both parties need to find out about each other. With some clients, I do not manage to do this because we are too different as people.'* It was emphasized that the parties need to get along and be able to work together. The communication director at a major publically listed firm talked of his “gut feeling” as highly relevant in the selection of PSFs and something that he uses quite a lot. He says: *'You get a feeling that you can work with them, on a personal level...'*

The relevance of the presence of chemistry varied across different types of buyer centre representatives, where the chemistry with the main buyer is the most important. A partner of a leading Norwegian law firm commented: *'It also concerns the personal chemistry with the person that has the main responsibility. An example can be where there is a new CEO and it does not work out well. It relates to the psychological micro level.'*

(2) Organizational fit

In addition to the individual level chemistry, the degree to which there was buyer and supplier fit at the organizational and divisional level was pointed out as relevant. As noted by one buyer: *'They fit very well. They work with us and also in [division X].* The person in charge of organizational and leadership development in a major Norwegian firm elaborates: *'We easily notice ... relatively quickly when someone can fit into our environment, in our culture and work well with us.'* The concept of fit is, however, not used similarly across buyers.

Organizational fit consists of numerous aspects. The head of human resources at a major Norwegian publically listed firm stated: *'...they must be people that fit the culture, both methodologically, people wise and in understanding the business drivers and culture.'* Of these aspects, understanding the culture and buyer values seem particularly important. The senior IT manager at a major privately held firm in Norway elaborates on the notion of fit: *'We have...our way of acting that is relatively humorous, a little laid-back. And we expect some of the same criteria from those cooperative partners we called – consciously or unconsciously – and maybe to a larger or lesser extent, depending on who was in the picture. But I think this heavily impacts the final decision.'* Thus, fit seemed to impact the cooperative ability of the buyer and supplier and in turn impact the selection of supplier.

(c) Interaction across personal chemistry and organizational fit

There seems to be considerable overlap and interaction between the dimensions. For example, the culture and organizational fit is likely to impact individual level behaviour and the personal chemistry. The communication director of a major publically listed Norwegian firm noted: *'Another thing we emphasize is chemistry – that we fit – that the personality fits our company.'* While the data suggests that the personal level might be most important, it seems to some extent difficult to determine if fit is individual or organizational. Thus, in the discussion of the impact of chemistry and fit on client selection, the two concepts will be integrated under 'chemistry'.

One buyer pointed out that not only the chemistry among those buying and those selling was relevant. In addition, it was essential that those that are to be heavily involved in the project have good chemistry. As pointed out by an IT-executive at a major publically owned firm: *'Chemistry is of importance, but it is not only me they will be working with.'*

(E) PSF complacency

Under certain conditions the relationship was found to have negative effects on the work effort of the professionals. As pointed out by the manager of leadership and organizational development at a major governmentally owned Norwegian firm: *'[PSF X] is a house supplier for [our company]...They do not treat us as seriously as others where they are not insiders. Relative to them, they are more on their toes. It is a result of use over time.'* The director of organizational and leadership development at a major stock traded Norwegian firm points out: *'...there is a danger that they become too comfortable...and the temptation to relax can be too great, and they are not sufficiently alert....'* The supply chain manager at a major Norwegian publically owned firm elaborates on the reduction of effort in a relationship over time: *'...if you compare with those who really want to do it, then they are not as service minded as in the beginning. They often do not prioritize existing customers and put their best resources on new customers...when we want particular individuals it is not as easy to get them as when we were starting out.'*

This same perception was not shared by the professionals. Sellers pointed to mutuality and priority of relationships. A partner in a Norwegian consulting firm said the following relative to the nature of relationships: *'There is mutuality in it. An example is a firm and when they call us we drop everything. When they call, they are number one.'* Even so, to the degree that buyers sense a risk of slack from relationships, this impacts the degree to which relationships over time impact selection.

(F) Knowledge saturation

Not all buyers agree that it is important to stick with a firm because of its knowledge of the buyer firm and its representatives. They point out that the existing knowledge can lead to inertia, in the sense that it might be difficult to change the perception of the firm over time. The supply chain manager at a major publically owned Norwegian firm stated: *'To the degree that we have used individuals over time, it easily becomes so that they do not have anything to add to us. It can be good to get some "new blood" – other people and new ideas.'* The CEO of a Norwegian consulting firm elaborates on knowledge saturation: *'Often indications are that it is an advantage to have a relationship, but it can just as well be a disadvantage. We have experienced situations where we were hired over others who have been*

*pushed out after having been inside for a long time...some experiences are good, and some are maybe not so good. But then you also have the point about trying something new...'*

#### **16.4.3 The impact of the benefits and sacrifices on client perceived value**

In addition to describing the benefits and sacrifices, the following section uses the empirical data to develop an initial understanding of how each of the benefits and sacrifices impact the client's perception of value. Thus, following the previous section, the impact of (A) Satisfaction with past experience, (B) Contextual relational knowledge, (C) Trust, and (D) Chemistry will be described. In turn, the relationship sacrifices in the form of PSF complacency and knowledge saturation will be described together (E).

##### *(A) Satisfaction with past experience*

While satisfaction was identified as subjective and changing over time, the empirical data suggested that clients do in fact select PSFs based on whether their past experience was good or bad. Good and bad were described by clients as a function of, satisfaction – in the sense that the client's evaluation is dependent on the PSFs past ability to deliver services and results above expectations.

Buyers pointed out that satisfaction with past performance can be seen as a form of goodwill – which impacts the future selection by the client. As pointed out by the strategy director at a major Norwegian publically traded firm: *'...in a way they have the benefit of a type of goodwill from past projects if there have been good results.'* As the goodwill develops, it seems increasingly likely that the particular supplier would be selected the next time a project in their area of expertise arises.

In the in-depth cases, the directness of the experience seemed to impact the evaluation. To the degree that the buyer representative described detailed past dealings with the firm or individual, it had a larger impact on the decisions than where the experience was more general. The more direct the experience and the more illustrative the descriptions, the more weight it seemed to be given in the observed cases. An example of this effect was, for example, found in the meetings of the cross-disciplinary selection team in Case 1a. In these meetings, those with direct past experience with particular suppliers were asked to wait to the end with their evaluation of each suppliers, to limit the influence from their experience with the particular supplier. However, as those with the experience engaged in the discussions with their detailed descriptions, they seemed to dominate the evaluation. As they were asked to be the last meeting participants to state their evaluations,

their opinions largely overshadowed the perceptions and the legitimacy of those with no past experience with the different suppliers.

Direct past experience with a service supplier also makes it easy and quick to select a PSF, as a more limited search is needed. It therefore limits the search costs. Professionals point out that in cases where speed is important and the company has seen a particular firm perform well in the past, then that firm is often selected. As noted out by a buyer of professional services at a major private Norwegian company: *'...I sit and look at this project and I see that it is exactly the same as we have done in other similar types of services. It is very tempting for me to choose [PSF X] because they have already done it and shown that they can deliver what we want. So I am already influenced by that.'*

In addition to the ease and time, using a PSF that the buyer has used in the past was perceived by buyers to limit the risk. As pointed out by a human resource manager at a major publically owned firm: *'As long as one is content then it is easy to continue where the relationships are good. You know what you get and have not got a great amount of risk.'* Thus, buyers seem to assume that past performance is an indicator of future performance – and weight direct past performance positively in their evaluation, to limit their search cost and risk.

#### *(B) Contextual relational knowledge*

The discussion of the impact of the contextual knowledge of the relationship will be separated into: (1) the APSF's knowledge about the client and (2) the client's knowledge of the APSF, as above. Both types of knowledge will be addressed below.

##### *(1) The APSF's knowledge about the client*

The relevance of the PSF client knowledge is nicely pointed out by the strategy manager at a major Norwegian firm: *'That you have worked with someone...has given the basis for developing a specific understanding – on top of a general knowledge. And then if you [as a client] are to do something similar again, you will profit massively from using [the developed experience].'* The relevance of understanding and knowledge of the firm was elaborated on by the partner in charge of the strategy discipline at a major international consulting firm: *'I try to put myself in the manager's position: what is he concerned with, what is essential for the person to succeed, what can we add to this process. I think we have a good chance of nailing it.'*

In the public sector in-depth cases, contextual knowledge was used to eliminate those that did not know the buyer firm under the criteria 'understanding of the assignment'. In that way, the client-professional

relationship seemed to have significant impact on selection decisions in the public sector – even though the client-professional relationship was not described as a selection criterion per se.

Before looking in detail at the different dimensions of advantages from PSF client knowledge, it should be mentioned that the knowledge needs to be used in a positive way to be an advantage. In Case 1b there was one exception to the rule of ‘common treatment’ in the process. Relative to one supplier that RedOrg knew very well, a number of calls were made to clarify the particular need. The individual responsible for purchasing pointed out that others would disqualify the company based on such communication, which in fact infringes the intentions of the regulations. Thus, the supplier was not able to exploit their communication advantage – which limited the effect.

Buyers and professionals alike pointed out the ability of the PSFs to be both more effective and efficient resulting from their knowledge of the client firm – which had resulted from an existing relationship. The supply chain manager at a major publically owned Norwegian firm said: *‘They can be more efficient and effective than those that have to learn [our firm’s] inner life.’* Also, the partner in a major law firm pointed to the relationship as a way to become more efficient and effective. *‘[The clients] have maybe developed a relationship with one or two firms rather than shopping around every time. If one chooses this solution then the deliveries become more efficient and effective. One gets knowledge of the [client firm] that one can leverage. One can find out about the areas together and we always think of the client’s best interests.’*

The above quotes, however, give only limited insight in terms of what the effectiveness and efficiency concern. Based on broader insight from the interviews and in-depth cases it was possible to elaborate on these concepts. In terms of solution effectiveness, the interviews and in-depth cases suggested that understanding the client situation, which enabled better customization, was most important. Relative to efficiency, the data suggest that the time used to achieve results was considered most important. Thus, to understand the impact of the PSF client knowledge, two main areas will be addressed: (a) customized effective problem definition, approach and solution and (b) time and cost efficient solution. The interrelationship between these two areas will also be looked at (c).

(a) Customized effective problem definition, approach and solution

The relevance and impact of PSF client knowledge is related to the extensive demand for customization and contextualization in APSs. This is illustrated

by a quote from a director of organization and communication at a major Norwegian firm: *'Professional purchases are about getting inside the mind of the customer and understanding the customer's situation...'* A partner in a Norwegian professional service firm also points out: *'The quality is also in the relationship. There is a difference in working for and working with. When you work with, it concerns delivering something that is defined with the management and the organization. There is a personal dimension to it. It is only then that you can find something that fits the organization.'*

Thus, based on the qualitative data, it seems that the relationship enables access to client knowledge which enables the firm to get to the point and develop solutions that fit the client firm more accurately than where the professional is not as familiar with the firm. As pointed out by the human resource manager at a major Norwegian publically owned firm: *'[Relationships] imply that they know us and we know them...they know our pulse and through that they deliver more targeted development.'* In the interviews it was also pointed out that those who had knowledge of the client organization were better equipped to challenge and consult – as well as prioritize resources.

The customization also concerned understanding individual level preferences. By understanding the individuals in the client firms, the PSF was better equipped to find the solutions that were likely to be applicable to the decision makers of the firm. As a partner of a Norwegian management consulting firm said: *'One often talk of strategy as mathematics – as opportunities and threats – to find out what is the right thing to do. However, the CEO's ambition in addition to the risk they want to take is what makes the decision. You cannot use a consultant to do strategy. It has to fit the board of directors' own image of what they want to do, what we want and are able to undertake. The reason why the relationship is decisive is that one needs to understand the person's personal agenda. One needs to be good at what and how one should do the thing that [the buyer] wants to do.'*

(b) Time and cost efficient solution

In addition to tailoring the solution to the customer's need, the PSF client knowledge was also identified to have an impact on the efficiency of the solution. Thus, it does not only relate to adaptation of the solution to the client environment, but also to the time and effort it takes to get the APSF up and running in a given assignment and to realize the results. As pointed out by the head of human resources at a major Norwegian publically listed company: *'...when it comes to having been in an organization...the less time you need to get the person up and running in their understanding of the strategy etc., the better it is.'* The same point is made by the head of

communication at an international publically listed Norwegian firm: *'She has worked here earlier and has knowledge of the firm....She does not need any introduction...or... to learn about the firm and spend time on that...'* The strategy manager at a major Norwegian publically traded firm makes a similar point: *'The closest we get to a supplier holding a Royal warrant of appointment is [PSF X]...the reason is that they know us so well...you avoid the training part...you do not need to explain every time...'*

The professionals also recognize that relationships reduce the purchasing and start-up time. A partner at a major law firm makes a similar point: *'...they have little time...and if they have a lawyer that knows them, they do not need to tell their story again and again.'* The partner of a Norwegian management consulting firm elaborates: *'...they do not need to tell us what they do and what their names are...There is zero start-up cost. If you hire a new consulting firm it might take 2-3 months to learn what the firm does. We are ready right away.'* In addition to start-up costs, buyers also point to the speed in terms of reaching a solution. As a consulting buyer at a major publically traded Norwegian firm stated: *'Yes, the speed, but also that one – that one desires success – quick success in the projects – and then I think it is important to use a company that knows us.'*

(c) Interrelationship between customized effectiveness and time efficiency

Based on the above elaborations by buyers and sellers of professional services it became evident that the combination of effectiveness and efficiency was what really mattered to buyers. The strategy manager at a major international Norwegian publically traded firm noted: *'...the person has built up a very good understanding of how we think, what our needs are, and what is needed to make the transaction successful from our point of view. You avoid spending so much time explaining what our situation is, and what is important to consider...'*

In turn, this advantage was proposed to translate into a competitive advantage. As pointed out by a business development manager at a subdivision of a major international Norwegian publically traded firm: *'...they have learned to know us, and adjust to us and how we work. They know our internal decision making structures, but also our work processes. It makes it easy, you become adaptable...in terms of how you get started with the projects. It is clearly a comparative advantage these companies have.'*

Based on contextual knowledge, the embeddedness of the PSF in the client organization – organizational embeddedness – was identified by buyers as a relevant relational dimension in their selection of service supplier. Different types of organizational embeddedness were identified. In some instances the

service supplier or individuals of a service supplier were integrated into the decision making structures of the client organization. This embeddedness and social acceptance of the PSF made it difficult to change supplier.

In some instances this was even linked to the individual level. An example from one of the interviews in a major publically owned organization illustrates the personal nature of the embeddedness. As the particular person switched jobs to a competitor in the course of a project, the client chose to hire the firm that had hired the particular individual – and breach their existing contract – as opposed to continue with the firm and find an alternative person in that firm. The contextual knowledge of the particular consultant was so strong that options were not even considered.

(2) The client's knowledge of the APSF

The empirical data showed that past social interactions or economic transactions gave the client an indication of who the PSF and its representatives were and what they are good (and bad) at. In turn, buyers perceived this knowledge as reducing the risk. For example in Case 1a such knowledge was particularly important in the initial rounds of the evaluation before the formal meetings had taken place – as an indication of who the people behind the formal document were. This knowledge also enabled reduction of the purchasing process time and costs due to reduced need for information gathering, time in decision making processes and meetings with the suppliers. Case 1a illustrated that this could also be true in the public sector. As a particular supplier had been used in the organization extensively for the last three years, this company was not called in for a presentation as was the case with the other suppliers.

(C) *Trust*

As pointed out above, the buyers did not stress or elaborate on trust as a selection criterion to a significant extent. Thus, to understand the potential impact of trust, one needs to look in depth at the ideas presented by the professionals. Among these, the only important function of trust seemed to be risk reduction. A senior consultant at a major international consulting firm commented: *'So it is a ...knowledge of me, but...it is also a trust – a risk reduction. Trust and risk often go together in some form.'*

(D) *Chemistry and fit*

Chemistry was pointed out across buyers as important for the selection of a PSF. As emphasized by a senior vice president of organization and communication: *'If I like the person I work with, it is just as important as the competence. The 25 seconds of 'dog sniffing' are important – and it takes a long time for it to develop if it fails in the initial phase. It helps to know that the supplier is good, but if there is a lack of chemistry, it becomes hard for*

*both parties.*' Similarly, the strategy and divisional manager of a major Norwegian firm states: *'...if you do not have communication and personal chemistry it does not matter how clever you are...'*

The relevance of chemistry as a selection criterion was also true for the public sector. The buyer representatives in Case 1a said *'Chemistry is essential for our perception of the suppliers...'* Similar statements could be found in the other public sector cases. Some public buyers however seemed reluctant to identify chemistry as an explicit and significant key selection criterion. Still, those buyers suggested that it had some relevance. As pointed out by the IT-manager at a large publically owned firm: *'We have never selected because of personal chemistry. But it could be that we have eliminated someone based on this.'*

Buyers in the private sector also pointed to the case where chemistry prohibited them from inviting the particular company for a competition or directly for an assignment. The head of communication of a major Norwegian listed company commented: *'You have an additional barrier before you send an invitation to someone you have not worked it out with'* Thus, at the structural level, perceived lack of chemistry reduces the likelihood that the PSF will be selected – as the buyer does not include PSFs with which they feel they have bad chemistry into the purchasing process.

At the client relationship value level, chemistry was pointed out as important primarily based on its positive impact on co-operation – which buyers and sellers of APSs emphasize as essential for value creation in PSFs. A senior consultant at a major international consulting firm nicely formulates the relevance of co-operation for value creation by using an analogy of a walk: *'...it does not help how good you are as long as there is a lot of sand in the shoes...'* The sand illustrates the case of bad chemistry which easily causes blisters during your 'walk'. The senior consultant at a major international management consulting firm also makes the same point: *'It is a short term marriage – the project...you need to get along with the people...and some of them... I am thinking...four months every day with them...I cannot do it. It will be to exhausting.'*

Buyers and sellers alike point to chemistry as a fundamental component of being able to 'function with the people' and co-operate. The relevance of chemistry is further elaborated on by an executive vice president of human resources at a major publically owned firm: *'...I have nothing to do with them privately. But it is crystal clear that they fit me as individuals. I see that when we work together we work quicker than I would have done alone... One and one does not add up to two, but three or four...'* The insights from the empirical data suggest that not only the speed of the co-operation, but also the quality of it is improved as a result of chemistry. As pointed out by the

CEO of a Norwegian consulting firm as he described the relevance of chemistry for so called ‘good meetings’: *‘The professional discussion can have better growth conditions...if you understand each other at an interpersonal level.’*

Chemistry was pointed out as particularly important for co-operation where extensive interaction across the client and the professional was necessary. The communication director of a major international publically listed firm stated: *‘...you need to work so closely in creative processes that good chemistry...is more decisive than you actually say...’* Also, the purchasing manager at a major Norwegian publically traded firm points out situations where chemistry is particularly relevant. *‘In some cases we also want what I call...personal chemistry...if I will have to deal with someone to an extensive degree.’*

#### *(E) Relationship sacrifices*

The impact on client value of the relationship sacrifices was only considered in depth by informants to a very limited degree. At the structural level, the dissatisfaction with the efforts of the PSF and knowledge saturation seemed likely to increase the competitiveness of the purchasing processes – where the buyer chose other suppliers than the existing one. The personnel director of a division at major Norwegian publically owned firm said: *‘With reference to using a maid: It is okay to switch once in a while to keep them on their toes.’* This same point is made relative to knowledge saturation by the partner of a leading international management consulting firm: *‘...And I have full understanding that if they have used us within an area for four years, it could be sensible to take in someone else just to get a new pair of eyes.’*

Thus, while it seems difficult to conclude specifically about the particular indirect impact of the sacrifices, these sacrifices were identified as having a direct negative effect on selection.

#### **16.4.4 Interaction effects across the client relationship value dimensions**

In addition to the direct effect of the client relationship value dimensions, the empirical evidence showed that the relational dimensions presented above were reinforcing each other and interact. In particular, four main interaction effects were identified: First, (A) satisfaction with past experience; (B) contextual PSF client knowledge; and (C) chemistry, all impact trust. Additionally, (D) PSF contextual knowledge was identified as having an impact on chemistry. Each of these interactions will be supported by empirical data below.

(A) Satisfaction with past experience impacts trust

The positive experience gained from past co-operation seemed to impact trust positively. As noted by the strategy manager at a major Norwegian international stock traded company: *'...It is easier for me to trust someone I have worked with before...the important thing for us is to have relationships with individuals that we trust, and that concerns...satisfaction with the way they have conducted transactions in the past.'* The CEO of a Norwegian consulting firm makes a similar point: *'It can be an experience based, knowledge based relationship where the buyer has experience that you have delivered in a way that was satisfactory – and that provides a trust base.'* In fact, some of the informants defined trust as a function of past experience.

The rainmaker at an international management consulting firm also emphasized the relevance of satisfaction with past experience on trust and client selection: *'...if one has delivered before, and this customer - for whom we cut 8-9% of their cost...Then he was able to improve his result considerably. It implies that he gained faith – 'they will help me'. Then you have developed that trust, and the next time he needs help he will call me.'*

(B) Contextual knowledge impacts trust

The contextual knowledge was also identified in the perception of trust among buyers. At the individual level, the knowledge of the people is used as a mechanism for legitimacy and to point out that the professionals are not strangers, which supports the development of trust. The impact of individual level knowledge on trust is further elaborated on by the partner of a recruiting firm: *'If there are unknown people as buyers then you have a much longer way to go to create trust - than if you know them from before.'* Another recruiting firm partner also made a similar point: *'In this industry as in other consulting industries...the fact that people know you and have trust in you as a person....that is important.'*

(C) Chemistry impacts trust

The chemistry present among a new supplier and the buyer in Case 2 was very interesting, as it suggested that the instant chemistry and fit made it easier to trust the individual. One of the buyer representatives said the following after one of the meetings: *'They had an ability to create trust....'* An ex-consultant senior advisor at a major Norwegian privately held firm also identified the relevance of chemistry in the development of a trusting relationship: *'It is about developing a trusting relationship – it is about personal chemistry.'* Buyers pointed out that trust concerned similarity and fit, which were closely related to chemistry. As pointed out by the director of organization and communication at a major Norwegian publically traded firm in the explanation of what the client-professional relationship is about:

*'Trust in people that are similar to you and that represent the same point of view.'*

(D) Contextual PSF client knowledge impacts chemistry

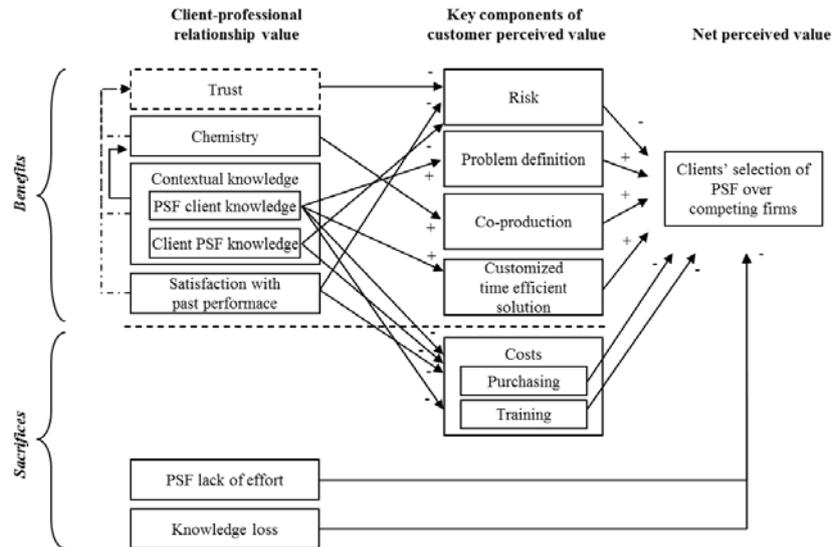
Buyers also pointed out that the degree to which the PSF has knowledge of their firm impacted their perception of chemistry. A manager of Human resources at a major public organization commented: *'...it also means something to know the firm. Then it is easier to be on the same wavelength. If one has not tried to understand the challenges, then people are sensitive about it and will ask if they are using their time in the right way...'* The same stance was taken by an organization and communication director of a mid-size Norwegian firm: *'To what extent do they capture our voice, do they have 'our soul' and do they look like us? It makes it easier in the work with the specific problems because they can quickly understand our challenges and our strategy.'*

**16.4.5 Overview of the impact of client-relationships on client's perceived value and selection**

Above, four main areas of relationship benefits were identified: (1) past satisfaction, contextual knowledge, trust, and chemistry and fit. In turn, the impacts of these different benefits were linked to four main areas of client value: risk, problem definition co-operation, customized time efficient solution, and cost reduction. In particular, past experience, trust and client knowledge of the PSF were identified as having a negative impact on risk. Chemistry was identified as having a positive impact on co-operation. PSF contextual knowledge was identified as having a positive effect on the establishment of time efficient customized solutions. Further, contextual knowledge and satisfaction with past performance were identified as having a negative effect on buyer purchasing and training costs. Finally, client sacrifices in the form of PSF complacency and knowledge saturation were identified as having a direct negative effect on selection. All these effects are included in Figure 16-6.

In addition to the effects of the relationship benefits and sacrifices on client PSF selection, the identified interaction effects are added to Figure 16-6. In particular, the figure illustrates how the other identified relational benefits – chemistry, contextual knowledge and satisfaction with past performance – can be seen as antecedents of trust. Thus, it seems that while buyers do not to an extensive degree emphasize trust, they do put emphasis on dimensions that impact trust.

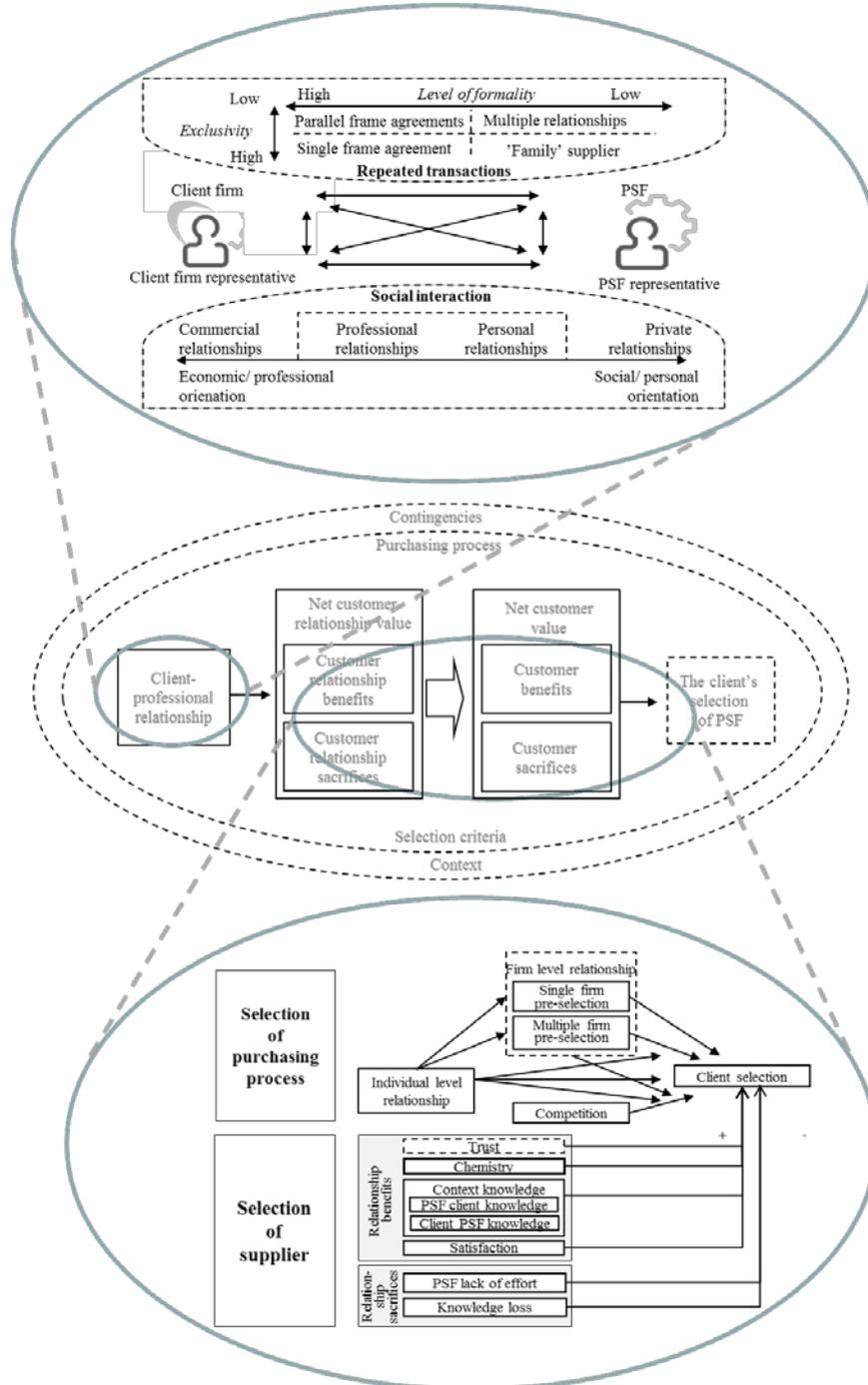
Figure 16-6: Overview of the impact of client-professional relationships on the client's perceived value and firm selection



### 16.5 Summary of insight on client-relationship impact

To summarize the chapter the insight gained are integrated into the research model in Figure 16-7. The figure details the areas where this study has added to our knowledge. First, this study has provided a new conceptualization of the client-professional relationship as both a firm and individual level concept as shown in the top level 'bubble' of the figure. Secondly, this chapter has suggested that that impact of relationships on client selection take place at two levels: in the selection of purchasing process and in the selection between suppliers in a given purchasing process. These two alternative routes of impact are illustrated in the lower level 'bubble' in the figure.

Figure 16-7: Integration of the client-professional relationship concept and impact into the research model



## **Chapter 17: Contingencies of the client-professional relationship impact**

### **17.1 Introduction**

In the following, key contingencies that affect the impact of the client-professional relationship on client selection are presented. The in-depth cases were used as a starting point to develop an understanding of these contingencies. An overview of the contingencies is presented in Appendix 6. While the in-depth cases gave extensive understanding of the public sector, the primary source of data on the contingencies in the private sector was interviews – in addition to Case 3. An overview of the identified contingencies of relational selection from the interviews is given in Appendices 7 and 8.

The number of contingencies is too extensive to be discussed fully in the following. Thus, only those identified as key in the empirical data will be considered in the following. In the literature review, environmental, organizational, group, individual, and situational contingencies were identified as the main categories. These categories were also found to be the most relevant in the empirical data and will be presented in sections 17.2 to 17.5. In the treatment of these contingencies attention will be paid to whether they concern effect route 1 or 2 – and whether they concern the selection of purchasing process or the value of the client-professional relationship within a given process. In addition to the contingencies key interaction and substitution effects are addressed in Section 17.6 ad 17.7. Section 17.8 summarizes and concludes the discussion of contingencies.

### **17.2 Environmental contingencies**

Key identified environmental contingencies concern regulation as well as service industry characteristics and whether the buyer was from the private or public sector. The details of each of these contingencies will be discussed in the following.

#### **17.2.1 Regulation**

In the public sector, the most important environmental contingency factor was regulation through law. All the cases in the public sector were and are governed by law. This has extensive implications for the processes and criteria used and the relevance of relationships for client selection. Some firms are also impacted by regulation in the private sector. In particular, the Sarbanes-Oxley Act is important – and includes Norwegian firms with an international presence. In the following: (A) the public procurement regulations and (B) the Sarbanes-Oxley Act will be considered.

(A) Public procurement regulations

The public procurement regulations were treated in Chapter 12. Based on the regulations, it seems that most professional services are likely to fall into the category of ‘competition with negotiation’. In reference to the selected cases, all the purchases were above the NOK 1.6 million limit, which seem to suggest that ‘open’ or ‘closed’ bidding is the type of process that should be to be used –depending on whether it is a prioritized or non-prioritized service. Case 1a represents a non-prioritized service and Case 1b and 2 were prioritized services. However, in accordance with § 4-2 c) which states that intellectually based services cannot be fully specified ex ante can be purchased based on the procedure ‘competition with negotiation’, this procedure was used in all the in-depth cases. Thus, most professional services are likely to be purchased based on a more relational process than the open bidding, which suggests that many more relational dimensions are likely to impact the purchases as compared to cases where there is closed bidding and buyers and suppliers only interact directly to a limited degree.

(B) Sarbanes-Oxley Act (SOX)

The case regarding BlueOrg shows that regulation is not only important in the public sector, but also in the private sector. In particular, the Sarbanes-Oxley act<sup>22</sup> has influence on the purchasing processes of organizations. While SOX was intended for US publically traded companies, the in-depth case from the private sector shows that Norwegian companies with a strong international foothold, and in particular if they are listed in the US, are likely to comply with SOX. SOX was intended to increase the transparency of US publicly traded companies by enhancing the accuracy and reliability of financial reporting, the accountability of boards and management and the transparency of corporate governance.

To achieve these intentions, SOX focuses on certification and control of internal reporting and control systems. This focus has implications for all types of purchasing, including that of professional services. In particular, all these types of purchases should be documented, including arguments for selecting a particular supplier. This demand for documentation and transparency is most easily complied with through the use of a competitive approach to purchasing and by involving more than one supplier. While there is no demand for open noting of competitions, the comparison of suppliers must be documented for internal transparency. The focus on SOX in BlueOrg impacted the purchasing strategies and policies of the organization.

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<sup>22</sup> [Pub.L. 107-204](#), 116 [Stat.](#) 745, enacted [2002-07-30](#).

### 17.2.2 Service industry characteristics

A few buyers identified market characteristics as relevant for their choice of purchasing process. In particular, they said that to the degree that there was a limited number of available suppliers for a particular area of services, a relational approach was more likely to be selected. However, indications among the informants also suggest that there is an increasing commoditization of APSs. Thus, it seems that things have changed since the time when it was difficult to access qualified and experienced professionals within administrative services. As the number of available firms within each of the different areas has increased, the relevance of market contingencies seems more limited than in the past. However, in the case of specialist services, market contingencies – and the lack of available qualified firms – are still likely to be relevant for the use of a direct purchasing approach.

In the empirical material, very few general differences across professional service industries were identified beyond the number of competitors. In some industries, the buyers generally seemed to select a supplier for a single or parallel frame agreement – and renegotiate every year. This was the situation in some of the cases from advertising listed in Appendices 2 and 3. In the case of accounting, a similar approach seemed to be taken. The empirical evidence, in addition to past research (Levinthal & Fichman, 1988b; Fichman & Levinthal, 1991; Seabright et al., 1992), suggest that buyers switch every 3-10 years in accounting. Thus, at the purchasing process level, certain differences seemed to exist across industries. The one industry that was mentioned across buyers as particularly different from the others was law. The use of a direct relational approach was most dominant in this industry. More than 50% of the informants buying legal services in the private sector stated that they used a direct relational approach. The use of such an approach was found in very few cases within other types of services. One reason for this seemed to be historical, as the particular lawyer had had a place on the board or as a manager in the past – and used that formal position to channel assignments to the firm. The partner of a major law firm pointed out that buyers relatively seldom check off and evaluate these types of embedded relationships.

There were also other characteristics of law services that were pointed out as peculiar. Law services were emphasized as an outlier in terms of their individual level nature. The strategy executive in a major Norwegian company stated: *'Law work is much more one-to-one work, but consulting is much more...group work, workshops and process,...consulting services; it is more the firm and their accumulated knowledge base, their tool box that they work with,... it is less individually focused.* The relevance of the relationships was also linked to the specialist nature of law services.

The individual nature of law had implications for the nature of the relationship and their relevance. As noted by an ex-business development manager and divisional manager at a major Norwegian firm: *'...it is [within law] that the firm means the least, I think. Within other typical consulting, financial, management, and strategy consulting – those kinds of things – the firm means more....there it is being able to leverage the network that matters....but it is difficult to weight the considerations against one another on a general basis – it is very dependent on the situation....but the lawyers are clearly most ...focused on individuals – and the relationship follows the people to a very strong degree.'*

However, as pointed out in the quote above, the relevance of relationships was likely to be dependent on situational contingencies rather than the particular nature of the firm. While law might be perceived as particularly one-on-one, the individual relationship was important across industries. The CEO of a major Norwegian firm commented: *'...relationships are important because a law service or a financial consulting service, or whatever it is – is not an 'off the shelf' type of merchandize, but extremely personally dependent...'* Relative to law services in particular, informants pointed out that rather than the service industry itself, a number of situational contingencies made the relationships important. In particular, buyers pointed out that these types of services are often small and repetitive and a part of the everyday work of the client organization. As noted by the ex-deputy CEO of a major company in Norway: *'Law services are high frequency and part of daily business.'* Buyers also pointed out that many law services involve small assignments, which made buyers refrain from initiating a large purchasing process. The business development manager of a major Norwegian firm explained the relevance of assignment size in this way: *'If I need an answer to a specific question that I know it would take a lawyer half a day to answer – then I call someone I have used in the past – to get that answer quickly.'* The CFO of a privately held company made a similar point: *'...we need legal services throughout the year...and if we need a very large law review, if it concerned half a million kroner – then we might ask for bids'.*

Thus, the research suggests that the situational and need based characteristics are particularly relevant in understanding differences in the relevance and use of relationships across industries. In the following, emphasis will be placed on understanding these drivers of industry differences. However, attention will first be focused on understanding the degree to which organizational, group and individual contingencies seemed relevant for the use of relationships for selection.

### 17.2.3 Private versus public sector

The public sector is under strict regulation as described above. This is intended to promote equality and limit purchasing based on relationships. Nevertheless, sellers said that relationships were extremely relevant in public purchasing processes – and that many of the processes used are ‘unreal’. The CEO of a Norwegian consulting firm in fact suggested that the public sector is more relational than the private sector by pointing out: *‘We have decided not to expend energy on the public sector because it is so relational. It is the worst and we experience it as the least honorable market to be in...The private is much fairer. Even though there are relationships...it is fair because they do not portray themselves as being something else. They say overtly that they will select based on relationships....’* Another CEO of a Norwegian consulting firm elaborates: *‘To say that relationships are not important in the public sector is rubbish....In my experience they mean a lot...relationships both in the form of knowledge about the firm,...experience based knowledge of the people that are there, the trust that has been developed over time...’* The CEO of another Norwegian consulting firm argues even more strongly for the relevance of client-professional relationships in the public sector: *‘...I believe that the relationships are far more important than you might think in the public sector – you understand – it is hidden by the logic and the logistics of the purchase...in the private sector relationships are important, but much more open...In spite of the bidding processes, I think the rules of the game in the public sector are not very different from those in the private sector. In a way one selects based on the same criteria, which often will be on the relational level.’* A partner in a recruiting firm elaborates on the nature of ‘unreal’ processes: *‘My feeling is that the process is very professional up to a certain point, and then the relationships take over....’*

However, while suppliers in general talk about the dominant role of relationships, they do not perceive that they have been preferred in competitive processes in the public sector to a significant degree. While a small number of suppliers point out that there have been cases where they were preferred, most informants from the PSFs point out that they have been involved in a number of processes where others were selected based on their relationships – but that they themselves have never been selected based on their relationships. This twist of logic seems to suggest that the processes are more ‘real’ than is portrayed by a number of somewhat bitter professionals who have lost projects to superior alternative suppliers.

Buyers are much less oriented towards the relationship than the suppliers appear to think. In fact, buyers seem to be much more cynical than what the suppliers think they are. They want the best supplier, and the relationship

seemed to be only one dimension on which they based their selection. To the degree that the relational supplier was perceived as better, this supplier was generally selected. Where unknown suppliers came in and made a good impression, the buyer seemed to be likely to switch to the new supplier.

Thus, while the relationship might be relevant, loyalty did not seem to be very important. In fact, in Case 2, members of the buyer group emphasized that the relationship was not as embedded as thought by others: *'Even though we know them, it is not a problem if you believe that they should not be selected. We do not know them that well. We do not socialize privately or anything.'* Rather, buyers seemed to emphasize getting the best services possible without emphasizing loyalty to certain suppliers. They seem to be relatively functional rather than primarily emotional. However, there was a difference in perception among buyers and suppliers regarding this point, where the suppliers seemed to make efforts to be functional, while the professionals overemphasized the emotional aspect.

### **17.3 Organizational contingencies**

In the public sector, the primary driver of the purchasing strategy and guidelines was regulation. In the observation of the cases, however, the involvement of the purchasing function was identified as highly relevant for whether the regulation, guidelines and policy were followed. The purchasing function's involvement was identified as ranging from them having a control function as 'a guardian of the law', to the role as a negotiator and ultimately as a process guide, where the purchasing department was in charge of the process. To the degree that purchasing was heavily involved, existing policies became better known by those involved in the processes, and the impact of personal relationships seemed to be reduced. The CEO of a Norwegian consulting firm states: *'...the relationship's impact is smaller because of the fact that...other people are involved than those you have relationships with....the purchase becomes more 'technical' when the purchasing department is involved.'* Here 'technical' means that policies and procedures were more strictly followed. Where a purchasing department was heavily involved, the influence of personal relationships – and dimensions of value originating from such relationships - seemed more limited.

In turn, the involvement of purchasing seemed to some degree dependent not only on its existence, but on the outcome of internal 'political' battles for control between purchasing, the line and divisional organization and management. In the in-depth cases in RedOrg, the 'battle' between the line organization and purchasing was extensive. This was also the case in BlueOrg where purchasing was repeatedly viewed in a negative manner and referred to as 'the Police'.

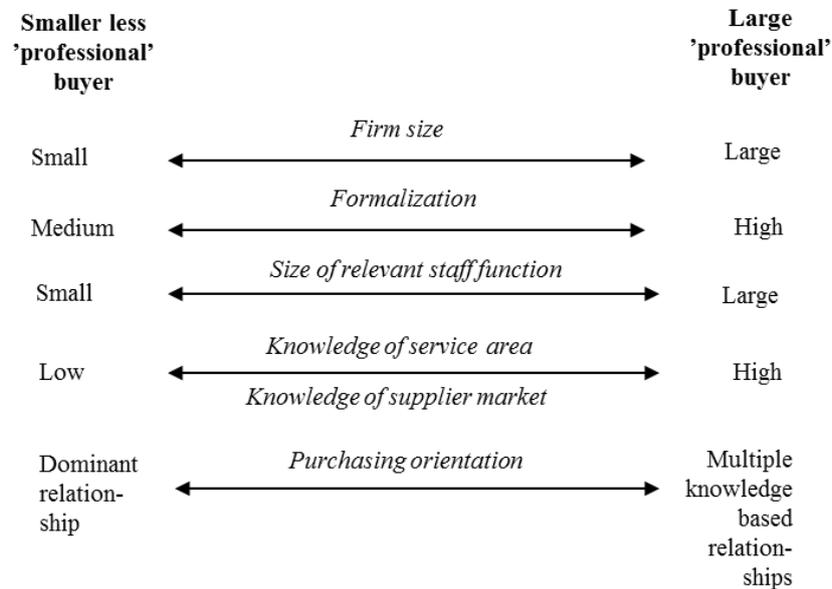
In the private sector, some organizations followed general purchasing guidelines for APS purchases. However, due to the more limited impact of regulation in most private sector companies, most organizations did not have any specific explicitly stated purchasing strategy in the area of professional services. Rather, some buyers pointed out that the size of the relevant staff function was important for the existence of firm relationships. They pointed out that as it was difficult to set aside the capacity needed to select suppliers where the staff function was limited, it became important to pre-select suppliers to be able to meet the potential needs related to future potential initiatives and to limit the purchasing costs. According to the ex deputy CEO of a relatively large Norwegian company: *'...you want some co-operative partners that you use over time...If we had a larger staff we would have shopped around...'* Thus, the size of the staff function seemed to impact the degree to which single or multiple pre-selection was used.

The interviews with the suppliers suggested that a separation should be made between larger 'professional' buyers on one hand, and smaller less 'professional' buyers on the other. The larger buyers typically have professional staff functions that are knowledgeable in their area of the service and perceived by buyers as professional. These buyers typically look for specialist services and use the professionals in as targeted a manner as possible. Within each area, the same organization would typically have more suppliers to serve different niches. The professionalization also implies increased involvement of the purchasing department, which seemed to increase the competitive nature of the selection. The objective of the more professionalized organizations seemed to be that they wanted to ensure competition among their suppliers while at the same time retaining the benefits of a relationship. This was done through developing multiple relationships within each purchasing category to ensure satisfactory access to the particular expertise, while at the same time retaining relationship benefits.

At the other extreme there were less professionalized smaller organizations with smaller staff functions, which did not have the knowledge and capacity themselves to select PSFs due to their limited expertise within each sub-category of needs. These organizations rather seemed to choose to have long-term relationships with one or two more general suppliers within each service area to ensure that they had access to relevant competence when needed. These firms neither had the competence or capacity to make sure that they had access to the best superior knowledge in each area. Instead, they focused on finding generalist firms with good enough competence to meet their needs.

A summary of the key dimensions on which a distinction between the larger more professional buyers and the smaller less professional buyers can be made is shown in Figure 17-1. This typology of buying organizations illustrates that while buyers might be different in terms of their approach to the purchasing of professional services, private sector buyers seem to use relationships – either dominant or multiple - as a mechanism in selection and rarely use competition to choose a supplier. This corresponds to the interview data, which suggest that only about 30% of all processes from the private sector were competitive without pre-selection.

Figure 17-1: Typology of APS buyers proposed by professionals



#### 17.4 Group and individual level contingencies

Variation in the type of purchasing process used appeared to depend on the size of the buying center. The typical purchasing center of APSs in the private sector consisted of 1-4 managers. The size of the center limited the need for and use of highly formal processes and also seemed to increase the likelihood that individual level relationships impacted selection.

In addition to buyer center size, the knowledge of the buyers was found to be highly relevant for the type of purchasing process in the private sector. The one thing that multiple interviewees pointed out as relevant was that the knowledge of those involved in the selection of the firm heavily impacted

the selection process. This was listed as the 9<sup>th</sup> most important contingency. To the degree that the buying center was highly knowledgeable about the area of the assignment and the supplier market in their respective area, they used a more direct knowledge based approach compared to instances where less knowledgeable buyers were purchasing. Generally, most buyers saw themselves as relatively knowledgeable and pointed out that they were using direct knowledge based processes and relationships with specialists in each of the areas in which they needed service suppliers. This is verified by the buyer interviews, where only around 30% of the cases were competitive.

The types of participants taking part in the buying center were of relevance for selection. In general, the CEO would only be directly involved in the selection of suppliers where highly strategic issues were to be addressed. The areas of investment banking, strategy consulting and law were the areas where the CEO seemed to be involved most frequently. A general observation was, however, that different CEOs seemed to have varying approaches to APSs. Some CEOs had strong preferences relative to which PSFs were selected – as in RedOrg. Other CEOs were hands-off and let the functional managers decide which firm to use. To the degree that a CEO with strong preferences had strong relationships, they guided the selection process.

However, not only formal influence seemed relevant for the individual members' impact. For example, in Case 1a, two different people had extensive informal influence even though the buyer group was large. Thus, individual stakeholding – and the relationship of these individuals – had an effect based on the informal impact of the particular individual. This was the case even though the buying center was large. Thus, it seems that it might be difficult to overcome this informal influence even in the case of large buying centers.

### **17.5 Situational contingencies**

In the public sector, regulation and the involvement of the purchasing department as guardian of regulations was pointed out as an important contingency factor for the choice of purchasing process and the relevance of the client-professional relationship. However, situational contingencies also seemed relevant in the public sector. In particular, it seemed that buyers in the public sector were concerned with their particular need. As pointed out by the human resource manager at a major Norwegian governmentally owned firm: *'We do not have any relationships. [Who we hire] depends on the need. We take someone in when we need them.'* This particular buyer further elaborates: *'[Relationships] are of some significance. But we are ice-cold. It is not the relationship, but the delivery that matters... There have been cases where the relationship is bad, but they still deliver.'* Thus, it

seemed that relationships were relevant where they enabled a better satisfaction of the buyers' need. Understanding situational contingencies that determine the degree to which relationships are essential to achieve satisfaction seems relevant in the public sector as well as in the private sector.

In the across firm interviews with managers in RedOrg, two main contingencies related to need and relationship respectively stood out: urgency and embeddedness. In the private sector, the data collected indicated that the majority of contingencies of relational client selection were related to the particular service rather than to the organization and the environment, as shown by the list of identified contingencies above. Based on inductive categorization of the identified situational contingencies, they were found to relate to the need of the buyer or the existence of a relationship. Thus, beyond the need of the organization, the nature of the relationship itself seemed to have implications for the choice of selection process. In the following, (A) relationship (B) need and contingencies will be presented. An overview of the relevant contingencies is presented in Figure 17-3. These contingencies are linked not only to the choice of a relational or competitive process, but also to whether or not an expert approach is used.

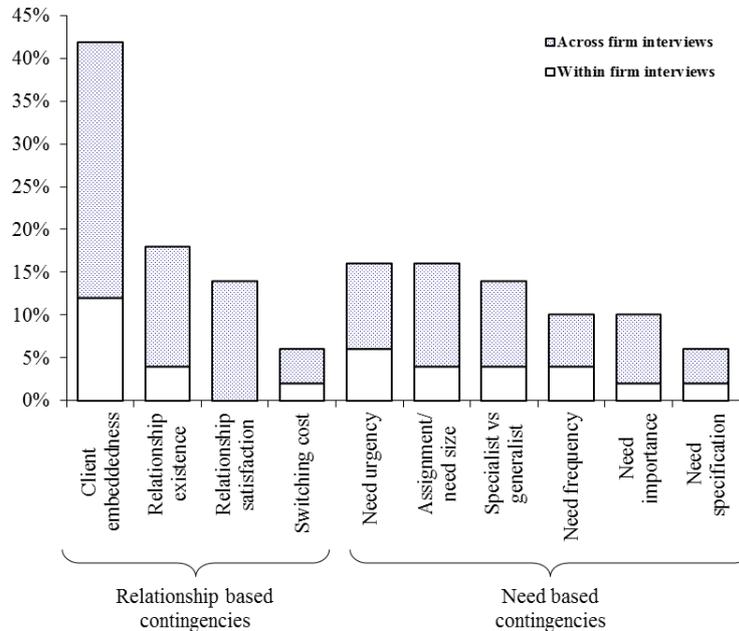
#### (A) Relationship based contingencies

The relationship contingencies concern the extent to which the existence of a relationship impacted the type of purchasing process applied by buyers. Four of the key contingencies identified seemed to be directly linked to the relationship: (1) client embeddedness; (2) the existence of a relationship and a history together; (3) the satisfaction with the existing supplier; and (4) the switching cost.

##### *(1) Client embeddedness*

In more than 40% of the cases, factors concerning the level of PSF-client embeddedness were pointed out as among the key contingency factors determining the repetitive use of the same supplier and the impact of the relationship on selection. Client embeddedness factors concerned the in-depth understanding of the firm, including its business, practices, and politics – which often resulted from the development of a relationship. This understanding of the firm was seen as essential by clients for the supplier to be able to solve their problems and made it easier to work with the particular supplier compared to a stranger.

Figure 17-2: Overview of situational contingencies as % of total number of interviews where contingency was mentioned



The opposite of embeddedness was defined as independence, which in some cases made it necessary to use a company that had not been used in the past. This selection of independent companies was done based on a competitive or direct knowledge based approach.

One service characteristic which related closely to embeddedness was also identified as relevant for the use of single pre-selection across firms and industries: the degree to which the service was based on a market versus firm knowledge. The latter type of knowledge seemed to enhance the relevance of relationships. In particular, investment banking services were largely based on market and financial knowledge – and parallel relationships were found to be extensively used. Other types of service – such as leadership development – were more oriented towards firm knowledge and embedded processes and were based on single or parallel frame agreements.

(2) Relationship existence

The fact that a relationship with a supplier existed was pointed out by the informants as relevant for the future selection of service provider. As a relationship had developed, a number of informants said that they were

likely to continue buying from the same supplier. Moreover, purchases based on a relationship did not seem to be contingent on the quality of the supplier, but rather on other political and managerial conditions in an organization. For example, they could be based on a relational purchasing strategy within the particular area. Thus, the relational approach of the buyers seemed to limit the competitive component of their considerations, and switching was not a realistic alternative for them. More informants, however, also stated that relying on a relationship for its history rather than for relationship benefits was a thing of the past. They said that in future they would try to focus on purchasing services based on quality.

*(3) Relationship satisfaction*

A number of informants said that satisfaction with the existing supplier was an important reason for continuing to buy a type of service from a given supplier. Some informants also noted that the reason for initiating a competition was that they were not satisfied. Thus, satisfaction was seen as a key contingency for choosing a relational approach. Details on the triggers and determinants of satisfaction were discussed above.

*(4) Switching costs*

Switching costs were pointed out extensively as a relationally based situational contingency of the relationship value. This contingency was closely related to embeddedness and urgency. In terms of embeddedness, the understanding of the buyers was typically that buying from a new supplier involved considerable cost and time to integrate them into the organization. Thus, where the PSF was extensively embedded in the organization, the client's value of the relationship was closely related to switching costs. A senior executive at a leading publically owned firm commented: *'The start-up cost was too great to choose someone else.'*

Building on the notion that 'time is money', buyers seemed to assume that time could be directly converted into costs. These costs made buyers prefer re-hiring companies they had worked with in the past in the case of urgency. However, switching cost was not extensively emphasized by informants beyond situations where the PSF was highly embedded in the client firm.

Indications from the empirical data also suggested there might be capacity limitations in the buying organization so that even though a lot of money was put into the purchasing of a given type of professional service time and money could not be seen as equivalent. In addition, there were limitations in the capacity of buyers that limited the competitive nature of purchasing.

(B) Need contingencies

Need contingencies concern the type of need that the buyer has. The empirical data shows that different types of needs seem to be linked to different types of purchasing processes and the relevance of relationships for buyer selection. Key need-based contingencies identified – listed based on the frequency at which the need based contingencies were mentioned in the interviews - were: (5) need urgency, (6) need/assignment size, (7) the need for specialist over generalist knowledge, (8) need frequency, (9) need importance, and (10) need specification. These need contingences determine the use of a relational approach as described below. Whether this approach is single or multiple does not seem to be dependent on the need, but rather on the professionalism of the buyer, as described above.

*(1) Need urgency*

The urgency of the need was the third most mentioned situational contingency. The time limitation to select a supplier was a repeated argument for use of a direct selection approach. The direct approach taken could either be relational, knowledge based or a combination of the two, depending on the knowledge and experience of the buyer. A senior consultant at a major international IT and management consulting firm noted: *'...if you have a very quick project that must be done, then you might not have time to...go out to different suppliers...you are more likely to...emphasize using people you know from before.'*

*(2) Need/assignment size*

The second most important need contingency was the size of the purchase. If the selection concerned a small assignment, the cost of selecting and evaluating different suppliers, added to the cost of getting a new supplier familiarized with the problem, meant that a competitive approach was often too costly. Thus, smaller projects were often purchased. As the CFO of a privately held firm notes: *'...if we are to run bidding processes for every transaction, it demands a lot of work, and it needs to be related to how big the transaction is...If we were to do a big [assignment]... we may have asked for bids.'*

*(3) The need for specialist over generalist knowledge*

In the case of 'bread and butter' basic APSs, which typically are the types of services that any APSF in a particular area is able to supply relatively well, the buyers pointed out that a relational approach to purchasing was generally selected. While one would assume that a competitive approach would be preferred for such services as there are more available, the benefit of having an embedded supplier was pointed out as particularly important. Thus, a relationship based approach was most often used. In cases where the buyer wanted specialist services, services were more often purchased based on a

direct knowledge based approach. To the degree that the specialist service was repeatedly used, embeddedness and relational benefits were gained from the specialists by using a combination of the direct knowledge and relationship based approach.

*(4) Need importance*

The degree to which the need was strategic or non-strategic was pointed out as an important contingency relative to the selection of purchasing process. However, the effect of this contingency factor was not consistent across interviews and cases. While some of the informants pointed out that more strategic projects were likely to be purchased based on a relationship, others emphasized the use of a competitive approach for such projects. This variation was linked to a difference in what was meant by strategic. When the notion of 'strategic' was related to a need for confidentiality, direct relationship based processes seemed to be favored more often - to avoid breaching the confidentiality. The business development executive at a major Norwegian publically owned firm stated: *'The area is sensitive and we cannot go out to everyone. It is appropriate to have actors who one knows and that know [our company] well...'* The legal director at a Norwegian international publically traded company makes a similar point: *'It could be that one does not want to tell the world about it and keep the lawyer closer than others. There could be negative situations where I would want to keep the lawyer close.'*

However, to the degree that strategic was interpreted as meaning important, other informants pointed out that these types of assignments are likely to be given resources that enabled the firm to develop a detailed need description – which in turn was used as a basis for a value competition. At the same time, in these cases where strategic was used as a synonym for important, one of the informants pointed out that the price sensitivity was likely to be lower. Thus, the company was more prone to emphasize finding the right supplier based on the direct knowledge based approach.

*(5) Need frequency*

The frequency of the need of the buyer organization was also mentioned as having an impact on the degree to which a relational approach was taken. If a type of service was a 'running theme' and used continuously, the cost of running a competition and the benefits of embeddedness were pointed out as important for the selection of a relational approach to purchasing.

Frequency of need can in turn be related to type of service. Through the interviews it became clear that certain types of professional services have a frequent nature, which makes a relationship based approach more appropriate. While the buyer need of some types of APS was relatively

frequent in nature, others were more assignment oriented. Frequency was most often mentioned as a contingency factor relative to generalist legal services, which were primarily purchased using a relationship based approach. As a contrast, frequency was not mentioned in the case of specialist services, which were typically needed on an ad-hoc basis in buyer firms.

(6) *Need specification*

The level of need specification was emphasized in only a handful of the cases in the interviews and by the suppliers. A useful distinction in the level of specification was: problem specification, where the buyer understood that they had a problem, but did not have a clear understanding of what was needed to solve that problem; need specification, where the buyer had some understanding of their own need; and solution specification, where the buyer had a good understanding of the problem, the need and some idea about the solution that could meet their needs. The closer the solution, the more the need was specified. One informant also mentioned functional specification, where the buyer specifies the performance that is expected of the solution rather than how that performance should be reached.

The individuals who pointed to the level of need specification as a relevant contingency factor emphasized that the initiation of a competition was dependent on the degree to which the need had been specified, so that it was possible for suppliers to understand what the buyer was actually purchasing. In cases where the need was not specified, more relational approaches were used.

A senior consultant at a Norwegian consulting firm points to the impact of specification on type of purchasing process. *'There is a difference in consulting services... more trusted business advisor issues... you talk to the person you have always talked to and through that process you understand more and more about what the problem is...in this situation it is a little artificial to send out for bids.'*

Nonetheless, in Case 1a, RedOrg had internal discussions concerning whether or not the need should be specified in detail in the notification to the supplier market. A high level of need specification could imply that the suppliers were not required to show a general understanding of the recruiting business and RedOrg as a buyer. The documentation sent out to the buyers consisted of a relatively high level description of the need, but more detailed descriptions of the need, including examples, were taken out to make sure that it would be possible to differentiate suppliers. Thus, limited need specification could not only be connected to a propensity to use a relational

approach – but also to a desire for suppliers to show their ability to solve a given problem.

A number of the PSFs pointed out that client need specifications could be problematic if they defined the wrong need or solution. Strict need specifications did not allow the PSFs to be part of defining the need and the solution and making sure that the organization was targeting the right problem. Relationships make it easier for firms to take a proactive approach to defining the client's need.

### **17.6 Key interaction effects**

In addition to the surrounding contingencies, key interaction effects impacting the perception of relationship benefits were mentioned by both buyers and sellers. The interaction effects that were most frequently mentioned concerned chemistry at both the individual and organizational level. Personal chemistry and organizational fit were identified above as a major dimension of the client-professional relationship. Two other main selection criteria appeared to impact the perception of chemistry in particular: (A) personality, style and culture; and (B) knowledge. Each of these impacts will be discussed in the following.

#### *(A) Personality, culture and style*

A major dependency in terms of chemistry was personality and style. As pointed out in the selection process in Case 1a: *'When it came to type, there was a personality clash.'* The organization and communication director at a major Norwegian publically traded firm, for example, talked of the personal as well as professional match. Included in this match was the ability to talk the same language. The following quote by this individual illustrated the role of language: *'One example where the language has shown to be problematic regards a supplier...that the CEO used on a previous job. The problem is that the individual does not gel with the others in the management group....This person has a different language and misses the 'level' – they are too intellectual for the operational environment...in what is delivered. The tempo between the person and the rest of the organization is not good. If the person had struck the right tempo, in addition to being professional – which they are – I would have used them much more. When the relationship does not fit it, becomes decisive for how much of the service one wishes to buy.'*

However, the chemistry and fit also need to be present at the organizational and cultural level. The communication director at a major publically listed Norwegian firm describes chemistry as the degree to which the personality of the individual fits the firm. The fit is, however, not only dependent on the personality, but also on the relevant culture of the supplier and buyer firm.

The IT manager of a major privately owned firm also pointed out that: *'...we negotiated for weeks with 3-4 potential candidates that we were to sign a final co-operative agreement with. Then these types of statements such as 'we like person X better than person Y' etc came up – and it was because we made an argument that the way that the person acts is an expression of a culture, we thought [our firm] could work well with them.'*

The professionals were also concerned with how they fit into the culture of the buyer organization. A very senior consultant at a major international consulting firm said: *'We are very concerned that our personal behavior is experienced as being suited to the culture that we potentially shall deliver the project to....We are concerned with dress code and 'synch and tone' and things like that...You know that you should avoid taking a very large risk when it comes to these things....'*

Finally, buyers pointed to style as being closely linked to the perception of chemistry. The strategy manager of a major Norwegian company said the following: *'...they had a style that I would say fit us in the sense that they were...humble, but knowledgeable in their area – and also determined.'*

*(b) Knowledge*

In addition to personality, buyers also indicated a wider type of match as essential for the perception of chemistry and for selection, which was not only dependent on personality, but also on content and context knowledge. An IT-manager at a major logistics company commented that: *'When it comes to personal chemistry, the person needs to have understood the problem and have knowledge.'* An ex strategy and divisional manager at a major privately traded firm elaborates on the overlap between knowledge and chemistry: *'It is a combination of two things, and one is easier than the other... it has got to do with knowledge; knowledge and experience – and with personal chemistry. Those two things easily overlap...what shall I say?– a combination of personal chemistry and knowledge, which makes them someone you listen to and others that you do not listen to...'* An IT executive at a major publically owned firm also pointed out: *'If they have not understood the task, then they will not manage to solve it. It borders on personal chemistry.'*

As pointed out above, the professionals were more concerned with trust than chemistry, and emphasized knowledge as relevant for trust. They also specified the relevance of knowledge in the perception of chemistry and trust among buyers. A partner of a recruiting firm stated: *'If through discussions... you show that you understand the industry, you generate much more trust than if you do not know the industry. It is much more convenient and trust-building that they can relate to someone who talks the language,*

*knows the terminology, knows what is going on, knows the challenges, the industry mechanisms etc.'*

### **17.7 Key substitution effects**

In addition to interaction effects, both the buyers and the professionals mentioned substitution effects in the relevance of relationships and other types of selection criteria. The following quote by a senior consultant at a national consulting firm illustrates the relevance of substitution effects: *'Those that are already in, and have a psychological relationship with the decision makers in the organization, have a certain advantage, and those that need to get around that must show specialist knowledge, and show something unique.'*

This quote illustrates the added value that a relationship seems to give the buyer. And to the degree that a supplier does not give this value, this value needs to be substituted. One way of doing this is through expert knowledge of creative solutions. Another alternative could be through reputation and brand name. A partner in a Norwegian management consulting firm said the following: *'It is thus possible to get help from your brand name relative to building the relationship... Certain names such as Morgan, BCG etc., get you access... when it comes to smaller firms, then we are dependent on developing relationships.* This quote not only suggests that there is a substitution effect across reputation and relationships – but also a synergy effect in the sense that the reputation and brand name could support the establishment and further development of a relationship.

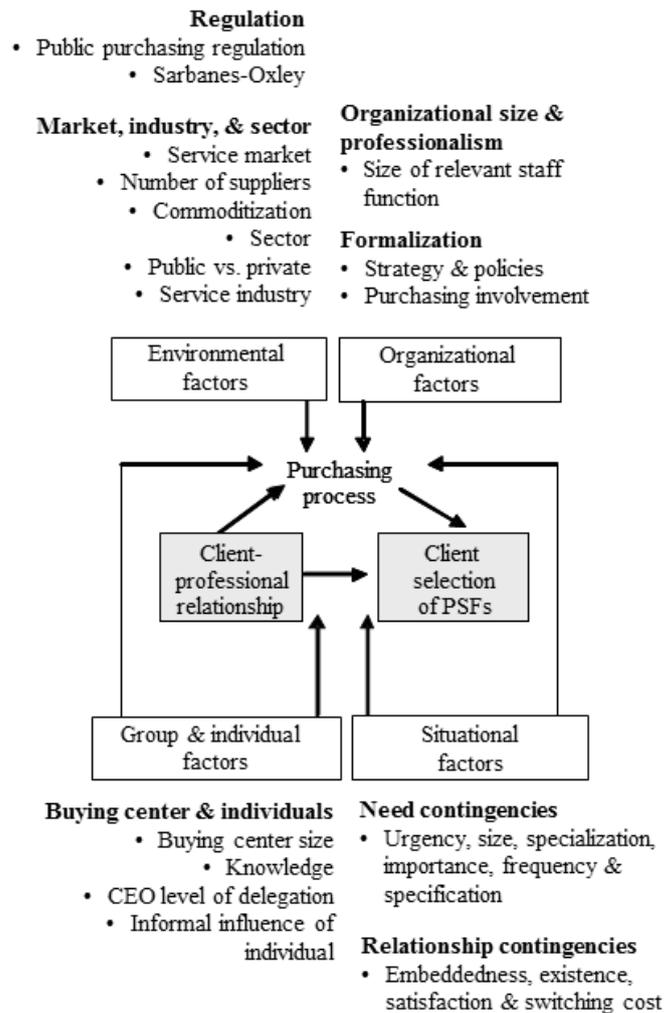
### **17.8 Summary of contingencies**

A summary of the above contingency factors and how they impact the research model is presented in Figure 17-4 below. The degree to which organizations develop relationships in the form of pre-selection seemed to be dependent primarily on the environmental and organizational contingencies. Thus, effect route 1 – the selection of purchasing process – seemed particularly impacted by these two types of processes. Of the environmental contingencies, regulation and industry were pointed out as particularly relevant. Of the organizational factors, the relevant contingencies were found to be policies and politics. Also, the level of involvement of the purchasing department was identified as an important intermediary force driving the implementation of the policies.

While the identified environmental and organizational factors primarily seem to impact the type of purchasing process used by a given organization, the identified group and individual as well as situational contingencies

seemed to relate to both the purchasing process and more directly to the relevance of the individual level relationship.

Figure 17-3: Overview of key identified contingencies

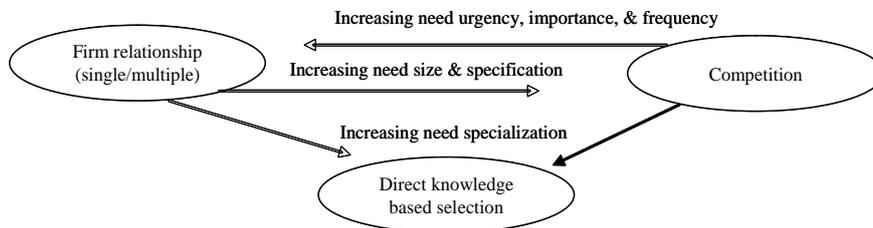


An important finding across the private and public sector was the vital role of embeddedness - and the switching cost the embeddedness entails - as a key contingency factors for the use of a relational approach to purchasing and the relationship value. The fact that the supplier had built up an understanding of the organization and had situational knowledge was

emphasized across cases and interviews in the private and public sector as highly relevant for selection.

Finally, my research suggests that the need based characteristics are particularly relevant in understanding differences in the relevance and use of relationships across industries. In particular, the need based contingencies were found to be relevant in the selection of purchasing process applied and whether a relationship oriented approach was taken. Figure 17-3 illustrates the impact of the need contingencies on the type of selection process applied.

*Figure 17-4: Overview of the impact of need based contingencies*



Thus, the above presented insight suggests that while regulation and organizational characteristics are important contingencies for the importance of the client-professional relationships, the impact of ultimately need driven and research and practitioners should be wary about the buyer need in further research and recommendations on the purchasing of APSs.

## PART VI: CONCLUSION

### Chapter 18: Study contributions, quality and opportunities for future research

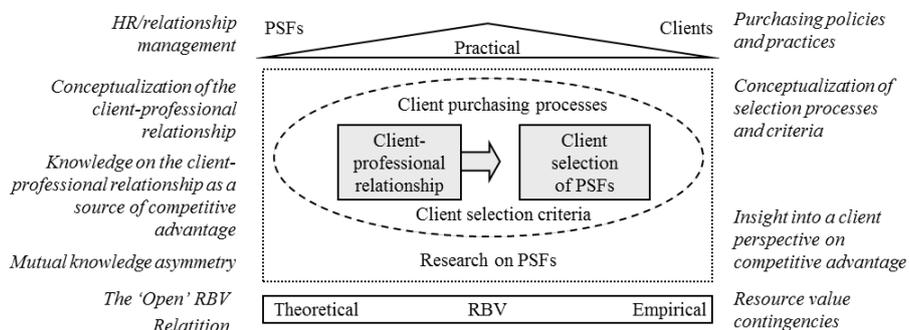
#### 18.1 Introduction

The following chapter has three main sections. The first section concludes the research presented above, by looking at contributions and implications. The second part of the chapter discusses the quality of the research. Thirdly and fourthly, I discuss limitations and present opportunities for further research are considered. Finally, I offer some concluding remarks.

#### 18.2 Research contributions and implications

Research contributions and implications will be presented in three main parts: (1) insights gained concerning the particular research questions, (2) theoretical contributions, and (3) practical implications. Figure 18-1 shows an overview of each of these parts by listing them around the outside of original research model.

Figure 18-1: Overview of key contributions



#### 18.2.1 Contributions concerning the particular research questions

As a starting point, the questions on which the research was based concerned three main areas and incorporated five key research questions:

- (A) Client selection of PSFs
  1. How are professional service firms selected by clients?
  2. What criteria are used for selection?
- (B) The client-professional relationship

3. *What is a client-professional relationship?*

(C) The impact of the client-professional relationship

4. *How does the client-professional relationship impact the client's selection?*

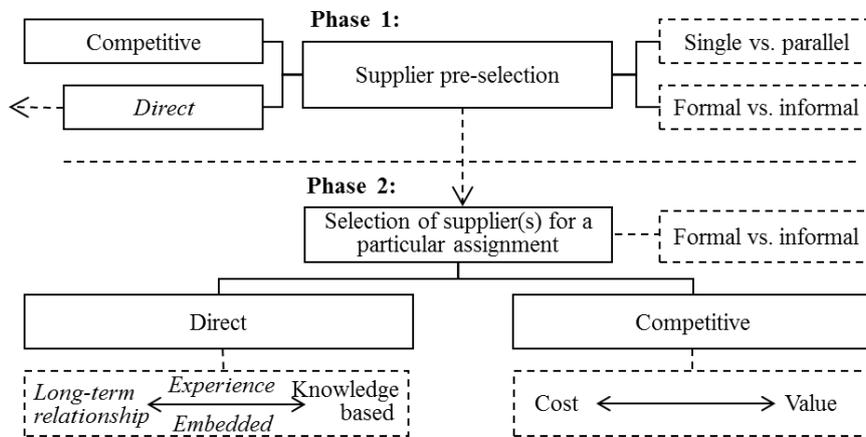
5. *What are the contingencies of the impact?*

The contributions of this study are considered in the following by referring to the identified answer to each of the different research questions.

**(A1) Client selection of PSFs: How are professional service firms selected by clients?**

As pointed out above, previous research has focused primarily on single generic purchasing processes, rather than typologies of processes. The empirical research presented in the preceding chapters suggests a new typology of purchasing processes where the process consists of two main phases: (1) supplier pre-selection and (2) assignment selection. Each of these phases is shown in Figure 18-2.

Figure 18-2: Overview of alternative selection processes



The identification and conceptualization of the dual phases of purchasing are important contributions of this research. According to the empirical data presented above, an increasing number of larger organizational buyers are considering using both phases. The understanding gained of these different phases from the empirical material is likely to provide important insight as the dual phases of purchasing are becoming increasingly used.

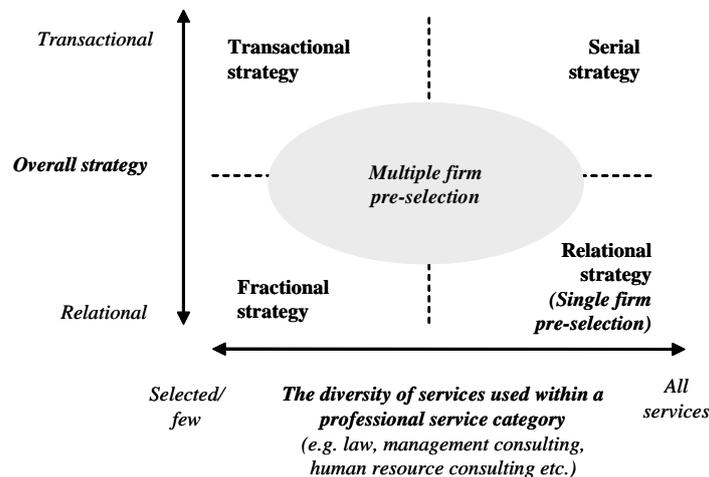
A commonality across the supplier pre-selection and the assignment selection was the distinction between direct and competitive processes. While this distinction has been proposed in existing research under the transactional and relational traditions of marketing research, the work presented here adds to existing research by recognizing a wider set of direct processes than the purely relational. Also, differentiations across competitive processes in terms of whether they are dominated by value or cost were emphasized. Thus, while previous research seems largely built on the difference in paradigms and to a limited degree integrates the two, the research presented here builds on the reality of firms in their selection of relationally based services. In such services, transactions are relational but can be competitive at the same time. The research above therefore adds richness to our understanding of the reality of clients in their PSF selection processes.

While prior research primarily has considered the entire purchasing process, from need identification to an assignment completion, the research presented above focuses on client selection. Within this sub-process, existing research identified three main steps as relevant (Stock & Zinszer, 1987): (a) the identification of the initial consideration set; (b) the refinement of the consideration set; and (c) the evaluation of the refined consideration set. Similar steps were found in the research presented above, in the form of pre-selection, selection and final selection. However, this study also adds to our understanding of differentiation in the emphasis of these different steps across the purchasing phases and different types of processes. In particular, processes that include pre-selection go through the selection process in two rounds and include pre-selection, selection and final selection. In the case of competitive versus direct processes, the process steps are likely to be much more elaborate for the latter. Thus, while building on generic process steps similar to those suggested in past research, this study adds contextualized insight into the need for repetitiveness and elaboration of the different steps.

In addition to answering the particular research sub-question on purchasing processes, the insight gained regarding the processes provided new knowledge regarding buyer purchasing strategies. In particular, the use of multiple firm pre-selection seems difficult to categorize according to the purchasing strategies presented above (Baker & Faulkner, 1991). In fact, this type of selection can be made in narrow or wide areas of professional services. Thus, the separation between narrow and wide strategies did not seem appropriate to separate the use of these types of agreements from the other proposed strategies. By using parallel frame agreements, the company in fact receives benefits linked to all of the strategies presented above. In particular, benefits related to using a relational or serial strategy, such as economies of scale and supplier specific investments in people, policies and

procedures can be achieved, as suppliers are retained for a considerable amount of time. Simultaneously, benefits traditionally linked to transactional and serial strategies are gained as there are usually competitions on price and competence for every assignment among the suppliers that are pre-selected. While single firm pre-selection could be categorized as a relational strategy, parallel frame agreements and less formal forms of multiple firm pre-selection represent an intermediary position which cuts across the purchasing strategies presented above and allows the buyer firm to leverage more of the benefits of each of the other strategies. Thus, it represents an addition to the strategies proposed by Baker and Faulkner – and should be added to their categorization as illustrated in Figure 18-3.

*Figure 18-3: Strategy of multiple firm pre-selection*  
*Source: Adapted from Baker and Faulkner (1991)*



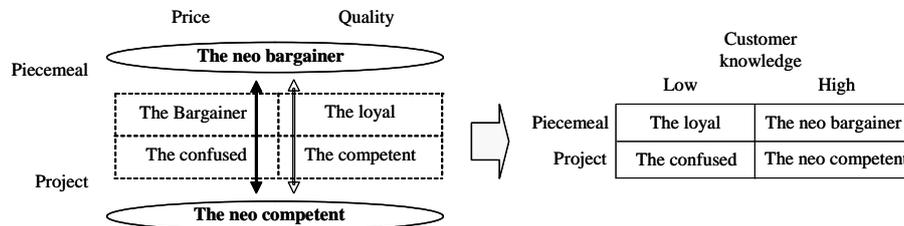
Additionally – and potentially more importantly – the dual processes described above show the tight interlinkage between transactional and relational purchasing. These processes illustrate how relationships and competition co-exist at different stages of the buying process and are combined in the case of multiple relationships.

The empirical material suggests that companies are abandoning single firm long-term relationships to an increasing degree and instead are applying fractional or multiple relationship approaches to purchasing. At the same time, in line with the public sector regulations, buyers are increasingly taking a net value approach, considering both quality – in the form of gross perceived value – and price. Research in key professional service industries such as management consulting also suggests that assignments are becoming

shorter and more specified (Niewiem & Richter 2004) and buyers are becoming more professional and knowledgeable. This development, in combination with the empirical findings presented above, suggests that many buyers are moving beyond the buyer categories proposed by Sharma (1994). Thus, additional categories should be added to reflect these developments. In particular, a majority of buyers seems to choose multiple alternative suppliers within a given area of professional services and select among these suppliers for a particular assignment. By doing this, they combine competition on price and quality with the gain of relational benefits from parallel relationships. Such types of buyers can be referred to as ‘neo bargainers’.

Alternatively, buyers seem to ‘cherry-pick’ the suppliers with the best perceived price-value proposition for each particular need. While they might prefer their existing supplier – as would be the case for the more traditional competent buyer – they seem to have much more specific topic knowledge than the traditional competent buyer and buy primarily based on the desire for the best competence rather than to just secure access to quality services. These buyers can be categorized as ‘neo competent’ buyers.

Figure 18-4: A new paradigm of PSF buyers and buying strategies  
 Source: Adapted from Sharma (1994)



The left side of Figure 18-4 illustrates the new buyer roles – in the form of the neo bargainer and the neo competent – that seem to have emerged following the developments presented above. However, the difficulty of classifying these roles of the price-quality continuum might suggest that this continuum is outdated and inappropriate. Also, based on the empirical material, the separation of buyers between being price or quality oriented seems crude and inaccurate, as most buyers seem to focus on both. Rather, there might be other dimensions that are more appropriate to categorize buyers. In the research presented above, the professionalism and knowledge of the buyer stood out as such an important dimension. This dimension has been switched with the price-quality continuum on the right hand side of

Figure 18-4 to propose a new typology of buyers. In this alternative categorization scheme, the neo bargainer and neo competent represent two of four main categories of buyers, in addition to the loyal and the confused.

This new matrix recognizes that the highly price conscious buyer is largely a buyer of the past. Based on the empirical data presented above, it seems that most buyers have recognized the relevance of quality as well as price in the process of PSF selection. The increased knowledge among buyers and commoditization and competition in most PS industries seem to suggest that securing access to services is not a primary concern, and that it is not necessary to keep relationships for such a purpose; buyers are most often likely to choose among alternative suppliers. Thus, 'the competent' buyer seems somewhat outdated among larger buyer firms.

To summarize, my study makes a contribution to existing research on client buying processes in a number of ways:

- (a) By developing a new typology of purchasing processes which:
  - I. emphasizes the difference between supplier pre-selection and assignment selection
  - II. separates direct and competitive processes across supplier pre-selection and assignment selection
  - III. recognizes single and multiple, as well as formal and informal, natures of pre-selection
  - IV. differentiates the elaboration of generic steps of supplier selection across different types of processes
- (b) By identifying a need to revise purchasing strategies based on the identified purchasing processes and incorporating multiple firm pre-selection.
- (c) By identifying a need for a revised categorization of buyers that recognizes their increased knowledge and use of direct knowledge based and multiple relationship based approaches to purchasing.

***(A2) Client selection of PSFs: What criteria are used for selection?***

In existing research, only a limited number of in-depth studies have been performed to develop a consistent typology of client selection criteria for professional services. The majority of research efforts have instead selected criteria arbitrarily and put different weight on the different types of criteria, without providing arguments for why this was done. Thus, previous research could be questioned for its completeness and thoroughness. In fact, some studies have overlooked very important criteria. This existing research on client selection criteria has been categorized above – which in itself is an important contribution.

In turn, the top level categories of this framework were used as a starting point for the categorization of the criteria mentioned by buyers in the empirical study. Based on this effort, four main categories of criteria were identified: input, service and assignment, relationship, and price. Beyond these top level categorizations, my study showed that in addition to price, experience based content and context knowledge and relational criteria in the form of relationships, reputation and references were the most important. In addition, understanding of the assignment, the people and the client service were considered essential by buyers in their selection. These general findings were detailed above in Tables 15-1, 15-2 and 16-1.

In addition to the knowledge on the particular categories, new insight was gained through the comparison of (a) past research and the empirical evidence, (b) mentioning of criteria across buyers and sellers, and (c) criteria across processes. Each of these contributions will be described below:

*(a) Past research compared to the empirical evidence*

Three main differences were found between previous research and the study presented here. First, past research emphasized an extensive number of categories related to the PSF, for example in terms of the range of services, age of the firm, location, governance and professional membership. While these criteria came up in the pre-qualification and pre-selection phases of the in-depth cases in this research, they were not deemed important for PSF selection in the interviews. Thus, while they seemed implicitly relevant for clients in the early part of the selection process, they did not appear to determine the final selection.

However, one key firm criterion that was emphasized – especially in the final selection phase – was firm capacity, which was most often defined as firm size. The extensive emphasis on PSF firm size and capacity as selection criteria is interesting, as previous research suggests that size is not a primary driver of value in problem solving based value creation (Stabell & Fjeldstad, 1998). Rather, the empirical data presented above suggests that size and capacity heavily impact client perceived value. This finding adds to established knowledge on PSF value creation.

Additionally, there was a difference in emphasis on style and appearance between previous research on client selection criteria and that presented here. While these criteria were mentioned in just a single prior study on management consulting services – which in fact was one of the few studies that included an initial exploratory qualitative phase – very limited emphasis was placed on such ‘softer’ criteria in past research on selection criteria. In the empirical in-depth study and interviews presented above, style and appearance were pointed out as essential. In fact, in my observation of

meetings, in many cases the impact of style and appearance and the impact this had on the ‘chemistry’ felt by the buyers, seemed to be the determining factor in the selection. In past research, key identified dimensions of style and appearance were not detailed. Thus, the conceptualization of style and appearance, through humility and flexibility, in addition to appearance and dress code, represents an interesting contribution.

In terms of relational criteria, this study shows that clients are concerned with references as a selection criterion to a more significant degree than in the findings of past research. At the same time, recommendations were much less emphasized by clients compared to previous studies. One reason for this could be that the in-depth cases included in the research were from the public sector, where the use of recommendations is considered to negatively affect equal treatment of suppliers. Also, past research lacks a clear distinction between sources of information, selection and evaluation criteria. Thus, while recommendations could be an important source of information, this was not identified as a key selection criterion in the empirical data above.

In terms of buyer perceived sacrifices in professional services, existing research seemed to emphasize price and cost as relevant criteria. However, differences in meaning and the relative importance of these criteria were not studied in any level of detail. My study shows that most buyers are primarily concerned with price rather than cost as a primary sacrifice and that price is a more relevant selection criterion in professional services compared to findings of past research. This is particularly true for the public sector. An ex-consultant at a major international IT and management consulting firm points out:

*‘In the public sector, price is a criterion because it is one of the few criteria they can evaluate consulting services on...and then the public sector does itself a favor which turns out to be detrimental. One thing is that you buy capacity for an hourly price – that is okay. But when you buy unspecified, forward looking solutions, evaluations and things like that – then hourly price is not the only criterion one should use.’*

However, this seller seems to assume that the buyers are ‘confused’ – if one uses the conceptualization by Sharma (1994) presented above. Based on the empirical data above, I instead suggest that this often is not the case among larger buyers. Rather, many buyers are knowledgeable and professional and focus on price for bargaining, in addition to quality and value. Under such conditions, the emphasis on price is likely not to be detrimental - as it is seen relative to the value gained for that particular price.

To summarize, my study makes a contribution to existing research on client selection criteria in five main ways:

- (i) By offering a better conceptualization of the selection criteria.
- (ii) By identifying firm size as a key selection criterion.
- (iii) By adding to the existing understanding of style and appearance as selection criteria.
- (iv) By paying attention to the separation between sources of information, as well as selection and evaluation criteria – in particular with regards to recommendations.
- (v) By emphasizing the extensive relevance of price in client selection.

*(b) Criteria across buyers and sellers*

Three main findings stood out when comparing the relevance of different criteria across buyers and sellers. First, sellers considered general knowledge and experience to be more relevant than buyers did. However, when looking at the more detailed types and aspects of knowledge, the sellers and buyers were relatively well aligned. Thus, as the professionals refer extensively to knowledge without specification, this could suggest that there was a knowledge oriented rhetoric among the PSF representatives. From a buyer perspective, it seems that the buyers are looking for particular types of knowledge rather than evaluating the supplier at a general level. Thus, there seems to be a gap in the perception of the relevance of general knowledge across buyers and sellers.

Secondly, buyers and sellers of APSs place different emphasis on approach, solution and methodology. These criteria were more often mentioned by sellers than by buyers. This could be related to the use of parallel frame agreements among buyers which limited the relevance of approach. Under such agreements, it is difficult to know what type of methodology or approach is needed as the agreements are made for future needs not yet identified. Alternatively, the difference in perception of approach, solution and methodology could be related to the fact that while the sellers see their own methodology and approach as unique, the buyers see them as relatively similar across firms – and not as important criteria for selection. This argument could be linked to the customization criterion, which was also more frequently mentioned by sellers than buyers. Thus, it seems that while sellers emphasize their approach as unique – in some case to the extent that it does not have to be customized, buyers seem to emphasize customization over methodology.

Finally, very interesting differences across buyers and sellers were found relative to the relational criteria. Sellers specified their reputation as extremely important for the selection of their firm. However, buyers did not mention the reputation of the firm as relevant for the selection very

frequently. An in-depth discussion of the differences between buyers and sellers in their emphasis on relationship based criteria will be presented below.

*(c) Criteria across processes*

To further understand the relevance of the different sets of criteria, they can be linked to the processes presented above. One particular difference across the phases of the process was identified in the case of pre-selection, where buyers were looking for the firm's future ability to solve their problems. In this circumstance, knowledge and capacity were seen as important among buyers. In the case of particular assignments, the solution was emphasized to the degree that a solution could be presented ex ante. Alternatively, the approach was pointed out as particularly relevant – more so than knowledge. Thus, it seemed that the more concrete the assignment, the more the evaluation was oriented towards the particular given need.

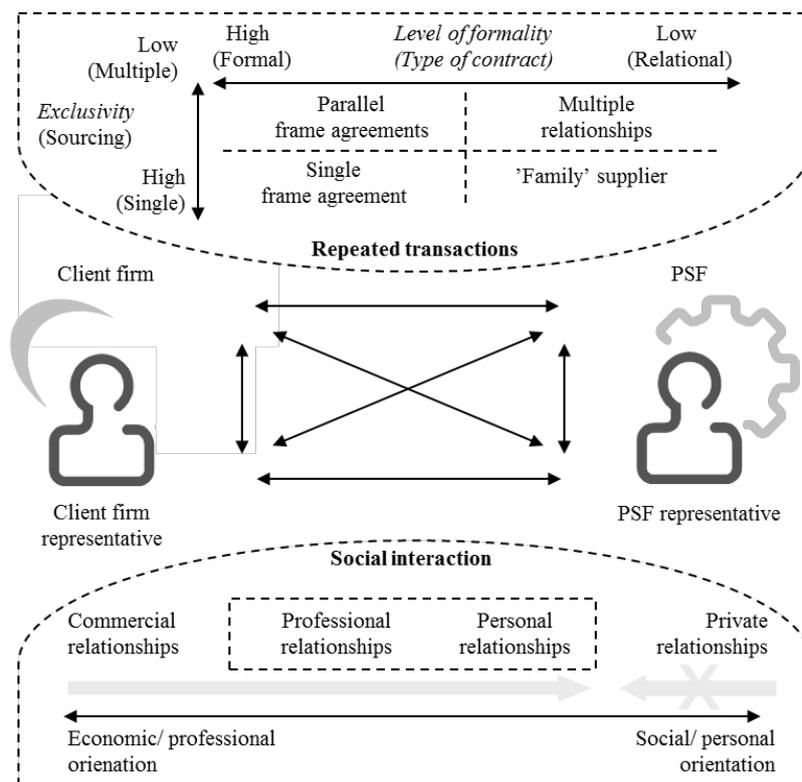
***(B3) The client-professional relationship: What is a client-professional relationship?***

Existing research on the buyer-supplier relationship in general and client-professional relationships in particular uses the notion of repeated firm transactions as a starting point. This study, however, suggests that buyers and suppliers of professional services consider the relationship as something that does not have to develop over time, but can take place 'then and there'. Thus, according to the empirical data, the client-professional relationship can be a connection that has developed over time as a result of repeated firm transactions. However, the notion of a relationship seems much more related to the social connections between people. In fact, these instant social connections can be experienced as being much more powerful than a relationship that has existed for years. The strength of this relationship is linked to dimensions of a relationship that have been neglected in past research on interorganizational relationships in general and client-professional relationships in particular: individual chemistry and organizational fit. Both these dimensions concern how each of the partners in the relationship perceives that they communicate, co-operate, and understand each other.

The recognition of the instant nature of the client-professional relationship incorporates both the individual and organizational components of the relationship. These different levels of the relationship were identified as being inter-related. From past research and as evidenced from the empirical data in this study, firm level relationships are likely to embed individual relationships. However, based on the empirical findings, it was also found that a multitude of individual relationships often lead to the development of a firm relationship. This conceptualization of client-professional

relationships as both repeated firm transactions and social connections; and as both firm and individually based, adds to our understanding of the nature of the client-professional relationship in particular and interorganizational relationships in general. This revised understanding of the client-professional relationship is illustrated in Figure 18-5.

Figure 18-5: The client-professional relationship



At the firm level, four types of firm relationships were identified depending on the degree to which the relationship was formal or informal, or relative to one supplier or more suppliers. In particular, firm relationships can be single or multiple formal frame agreements, or informal multiple or single relationships. Past typologies of client-professional relationships have focused on the level of embeddedness of single relationships rather than on the formality and whether the relationship is single or parallel.

At the individual level, the study showed – as indicated by past research – that client-professional relationships are personal. However, relationships that are too close – private relationships – were pointed out as problematic

due to the personal risk of damaging the relationship and the danger of compromising the buyer's integrity. Thus, there seem to be limitations in the degree to which private relationships are appropriable in a work setting. The dotted square at the bottom of Figure 18-5 illustrates the nature of the individual level client-professional relationship. The illustrated separation between personal and private relationships has not been focused on in past research as relevant relative to the client-professional relationship. This is therefore a contribution of the research presented here.

***(C5) The impact of the client-professional relationship: How does the client-professional relationship impact the client's selection?***

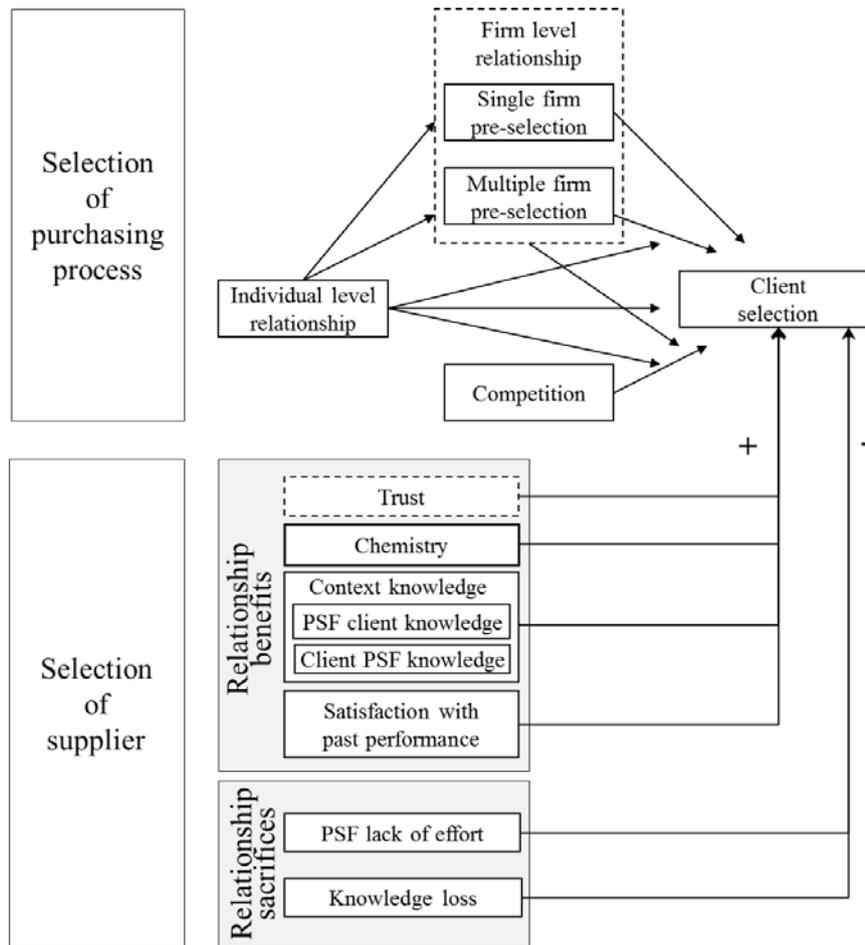
Previous research on interorganizational relationships in general and client-professional relationships in particular has focused on the nature, dimensions, antecedents and supplier benefits of relationships, rather than customer benefits. Moreover, existing research takes a relational point of view, where the relationship is emphasized as the unit of analysis rather than an independent variable impacting the competitive advantage of the supplier firm.

Thus, compared to existing research, the study presented here makes a contribution by combining the 'competitive' and 'networked and relational' view of firms. In doing this, relationships are proposed as mechanisms that enable the development of a competitive advantage for PSFs. This perspective adds to existing research. Thus, the alternative unit of analysis applied in this study is the client selection process, where the client-professional relationship only represents one of many variables impacting client selection.

Based on the above presented conceptualization of the nature of client selection processes and the client-professional relationship, the impact of the relationship was found to take place in two phases: in the selection of purchasing process and in the selection of a supplier within a given process. An overview of the different impacts is set out in Figure 18-6.

In each of these phases both the firm and individual level relationships were found to be relevant. At the firm level, the relationship was important as a way to pre-select suppliers, which can be closely linked to the selection of purchasing process. However, the firm relationship also embedded the relationship benefits and sacrifices identified as relevant for the buyers' perception of relationship net value, as presented above.

Figure 18-6: The impact of client-professional relationships on client selection



While past research on interorganizational relationships and social network theory has identified the essential role of gatekeepers and controllers of information, the role of relationships of individuals as sources of competitive advantage for firms has not been considered extensively. The research presented here suggests a new set of mechanisms of the individual level relationship that can impact the competitive advantage of PSFs.

Following the conceptualization of a relationship as something that can happen ‘then and there’ in addition to something that develops over time, a key finding from the research above was the essential role of interpersonal

chemistry as a key benefit of the relationship. This has had very limited emphasis in past research, which largely has taken a path dependent perspective on relationships. Existing research has specified ‘trust’ as an essential driver of value of client-professional relationships in particular and buyer-supplier relationships in general. However, the research presented here suggests that trust is perceived by buyers to have relatively limited relevance for selection. It seems that instead of focusing on trust directly, buyers focus on antecedents of trust, in the form of contextual knowledge, past experience and chemistry. Buyers are not lining up to hire ‘trusted advisors’. Rather, they have to an extensive degree moved ‘beyond’ the use of trusted advisors to establish multiple partially competitive relationships. Alternatively, they have the internal knowledge needed to cherry pick the most suitable supplier for each of their needs.

Also, as buyers are becoming more sophisticated, the nature of competition and sources of competitive advantage seem to be changing. Buyers are increasingly aware that professional services are co-produced rather than expert based and it seems that they recognize that in the process of value creation, chemistry might be much more relevant than trust.

Buyers identify contextual knowledge as a key relationship benefit. This benefit of the relationship is another criterion that has not been emphasized in existing research on buyer selection. However, the work undertaken here indicates that contextual knowledge rather than trust seems to be the most important path dependent and historically based dimension of the relationship driving client value. While contextual knowledge was emphasized as a key antecedent of becoming a ‘trusted advisor’, much of the existing research on interorganizational relationships in general and client-professional relationships in particular did not recognize the important function of this type of knowledge to any significant extent. As the customized nature of value creation is increasing across sectors, recognizing the relevance of context knowledge seems particularly important, not only for client-professional relationships in particular, but also for customized value creation in general.

It seems interesting to compare the identified benefits to the relevant dimensions used to describe the nature of client-professional relationships in the past. Based on existing research the BIKIS framework consisting of bonds, infrastructure, knowledge, interaction, and satisfaction was suggested as a way to integrate relevant dimensions of the nature of client-professional relationship proposed in existing research. The study presented here suggest that out of these dimensions bonds in the form of chemistry, contextual knowledge and past satisfaction are the most important sources of value. Thus, not all dimensions used to describe a relationship seem directly

relevant for the client's value perception. This distinction between relationship nature and benefits is important, but has to a limited degree been emphasized in past research.

Buyers pointed to two main sacrifices of relationships: lack of motivation and knowledge saturation. Both are effects of the nature of a relationship. While the latter has been pointed out in past research as a relevant sacrifice of inter-firm relationships, the motivational effect has not been addressed to any significant degree. Thus, the identification of the motivation effect adds to existing research on client-professional relationships.

Based on the above presentation, five main contributions of the research can be identified related to the conceptualization and impact of client-professional relationships on client selection:

- (i) Client-professional relationships can be conceptualized as: (a) firm as well as individually based; (b) inclusive of transactional and social components; and (c) being historical or happening 'then and there'.
- (ii) The study has given an enhanced understanding of relational sources of firm advantage. Personal chemistry and interorganizational fit were suggested in particular as such advantages.
- (iii) Buyers seem to emphasize chemistry and fit over trust and are well on their way in the transition from a 'trusted advisor' to a 'knowledge solution provider' buyer paradigm.
- (iv) Buyers emphasize the contextual knowledge that the client-professional relationships enable and the customization that this knowledge enables, as key to their supplier selection.
- (v) Historically identified dependent sacrifices of relationships are knowledge saturation and motivation. Thus, while the benefit in the form of chemistry is related to the 'then and there' relationship as well as the historically dependent relationship, the sacrifices seem primarily related to the path dependency and history of a relationship.

***(C5) The impact of the client-relationship: What are the contingencies of the impact?***

As a final part of the study, different types of contingencies that seem to facilitate or constrain the impact of the relationship on selection were considered. The empirical data shows that need and relationship based contingencies seem to be the most important. While regulation is intended to limit the relevance of relationships, my study showed that buyers were making efforts to work around the 'transactional' intention of the law. At the same time, even in the competitive processes, relationships were found to be important, as discovered in the in-depth cases. Thus, the relevance of relationships seems not to be primarily dependent on regulation, as assumed

in the methods section. Rather, the primary driver of relationship relevance for selection appeared to be need and relationship based.

While transaction cost economics (TCE) gives guidance on conditions under which hybrid governance mechanisms give cost advantages, the study presented here proposes that certain conditions are likely to make the relationship more relevant, not only relative to transaction costs, but also relative to customer value. Beyond frequency – which came out as an important contingency, also in explaining industry differences – urgency, specialization, criticality, and specification were other dimensions of the need that were revealed as highly relevant for the impact of a relationship on selection. Additionally, the nature and existence of the relationship itself and the level of embeddedness, satisfaction with the relationship, and cost of switching, were seen as contingencies for its relevance. The identification of these contingencies adds to existing research on the contingent nature of interorganizational relationships in general and client-professional relationships in particular.

The impact of the client-professional relationship was, in particular, seen to be dependent on the knowledge that the buyer individual and organization has of the particular area of professional services and of relevant suppliers. Specifically, it was suggested that the knowledgeable buyers are likely to be the larger more professional buyers with staff functions covering the particular area of professional services required. While past research suggests that long-term trust based relationships often are preferable from a PSF perspective (Maister et al., 2000), this study suggests that ‘direct knowledge based’ and ‘multiple relationships’ are preferred by knowledgeable buyers of professional services. For knowledgeable buyers with specialized needs, a direct approach seemed preferable and superior. For knowledgeable buyers with more generalist needs, it seemed that a multiple relationship approach was typically preferred. In the case of less knowledgeable buyers with frequent needs, longer term relationships appeared to be preferred. Thus, while relationships are preferred by more and less professional buyers, it seems that the nature of the relationship is different.

The composition of the purchasing center for the purchase of professional services has not been a primary focus of this research. While the composition of the center seems highly organizationally dependent, the roles of two key participants were identified as important and impacting the relevance of relationships: the CEO and the representative from the purchasing function.

The preferences of the CEO were deemed the most important if one were to consider how individuals impact the selection decision. However, it was emphasized that CEOs differed extensively in terms of the degree to which they delegated selection of PSFs and their desire to be involved in the selection. Their involvement seemed to correlate with the extent to which they and their relationships impacted the selection of firm.

The involvement of the purchasing representative seemed to impact the selection decision extensively. First, in the public sector, the involvement of purchasing had an important impact on the degree to which the regulation was implemented in the organization. In the private sector, the involvement of purchasing seemed much more limited. However, to the degree that they were involved, processes seemed to be more formal and concerned with following existing rules and procedures. In turn, the status and the actual impact of the purchasing department seemed to be determined by political turf wars and the work load of the department. Thus, formalization of the processes was largely determined by the status and availability of the purchasing organization, which in turn seemed to impact the involvement of the purchasing representative in the buying center. In turn, the purchasing representative's involvement seemed to reduce the impact of existing client-professional relationships for selection.

Based on the above presentation, three main findings of the research related to the contingent nature of client-relationship impact on client selection were identified:

- (vi) Need and relationship based contingencies was particularly relevant
- (vii) Of organizational and individual based contingencies, buyer knowledge of the professional's expertise was particularly important and heavily impacted the type of selection process used and the type of client-professional relationship that was relevant for selection
- (viii) The involvement of the purchasing function in the buying center decreased the impact of relationships through formalization. The involvement of the purchasing department is dependent on the department's status and capacity.

### **18.2.2 Theoretical contributions**

The empirical research presented above adds to a number of research traditions. However, to focus the attention and follow the theoretical framing, the contributions to two main theoretical traditions will be discussed first: (A) the resource based view of the firm (RBV) and (B) the theoretical foundation of professional service firms (PSFs). Additionally, the research presented above adds to our understanding of the combination of competitive and relational features that drive purchasing and the competitive

advantage and success of firms. Thus, a final section (C) describes the nature of such relational competition – referred to as relation<sup>®</sup>.

*(A) The resource based view of the firm*

Above, a revised conceptualization of the RBV was presented which recognized the ‘open’ nature of firms as consisting of and dependent on stakeholders. In particular, this perspective recognizes that a firm’s competitive advantage is largely dependent on customer perceptions and their net perceived value, which are determined by sacrifices relative to benefits. Existing research within the RBV has not taken such a customer oriented perspective to understand net value. By applying a customer point of view, a wider range of sacrifices than just purchasing price was recognized as relevant. While these were not primary sacrifices in the particular setting studied above, they broaden the perspective on value from a customer point of view, which is a contribution to the RBV.

The study presented above shows how the conceptualization of a competitive advantage as net customer value is highly applicable to the reality of buyers and helpful in understanding the competitive advantage of firms. This has been suggested as an interesting starting point to understand the competitive advantage of firms in previous research within the RBV. However, few studies have taken such a perspective. Thus, the application of the buyer perspective to the RBV is a contribution.

Additionally, this study has added to our understanding of the contingent nature of resource value. Past research within the RBV has focused on environmental contingencies in the form of, for example, information asymmetry, types of competition, complexity and uncertainty. This study builds on research within purchasing to suggest that contingencies exist within buyer organizations in terms of their size, formalization and political intensity, across buying centers, individuals, and within the particular purchasing situation. Specifically, need and relationship based contingencies were identified as particularly relevant. Of these situational contingencies, the need embeddedness, the degree to which the need was incorporated into the every-day business of the organization and the urgency of the problem, were found to be most relevant for the buyers’ perceived value of relationships.

These insights were gained in the context of PSs. Even so, the service and knowledge based nature of value creation in professional services is likely to be applicable across a wider set of situations than that of the pure PSFs. Thus, organizational, group, individual and situational contingencies of the buying process are likely to be highly relevant beyond professional services across contexts and focusing on these types of contingencies could add to

existing knowledge on the contingent value of resources beyond the environmental contingencies mentioned in past research.

This study has introduced an alternative perspective of the RBV, the 'open' RBV, which integrates value as dependent stakeholders inside as well as outside the firm. This perspective emphasizes that firms are dependent on resources that are not fully firm controlled and that these resources heavily impact customers' perception of value. For example, in the case of knowledge, most knowledge types mentioned by clients were present at the individual level. In the case of the client-professional relationship, it was perceived to exist both at the firm and individual level. These examples illustrate that some resources are firm controlled and others are dependent on individuals that are more or less dependent on the firm (Løwendahl, 1992, 1997). Other resources are dependent on both the individual and the firm (ibid.). For the seller firm there is a fundamental difference in the degree to which the buyer emphasizes the individual as opposed to the team or the firm. If the individual level is emphasized, the stakeholders of the firm are likely to be able to claim the rent from this resource. If customers instead focus on resources at the firm level, the firm's ability to gain residual claims is much higher. As this study empirically shows the relevance of individual level resources, it illustrates the importance of incorporating and emphasizing resource control and dependencies within the RBV.

In addition to the focus on lack of resource controllability by the firms, (Løwendahl, 1992, 1997) and the importance of resource mobilization across non-controlled resources (Haanæs, 1997), which has been emphasized in past research on PSFs, adding the customer perspective on resources value is a key contribution of this study. By integrating the relevance of resource control and dependencies with a stakeholder based view of firms and a customer oriented perspective on value creation, the 'open' RBV contributes significantly to the applicability of the RBV to the reality of firms. It fills the gap in previous research where there has been a division between the theoretical assumptions of the RBV and its empirical application; where resources that are not fully controlled by the firm are pointed out as some of the most valuable sources of competitive advantage for that same firm – but where the lack of control only has been treated to a limited degree. Also, it recognizes the nature of service based value creation, where value is created by letting customers access directly the resources of the supplier firm and where the customer's perception of resource value is highly important. Thus, the 'open' RBV acknowledges the lack of controllability and importance of customer perceptions, which is an important contribution.

*(B) Theory of professional service firms*

Existing research on the competitive advantage of PSFs is primarily firm rather than customer oriented. Firm characteristics and content knowledge have been emphasized as key sources of competitive advantage. Thus, past research seems to have focused on the ‘professional’ and ‘firm’ dimensions of PSF competitive advantage. Conversely, the research presented here has emphasized the ‘service’ as part of the competitive advantage, where client perceptions are essential. This work has shown that to understand value creation and competitive advantage in professional services, it is essential to understand the customer and the client-professional relationship. While existing literature on buyer-supplier relationships in general and on client-professional relationships in particular, as well as the professionals in my empirical study identify trust as a key element of the relationship, buyers appear more concerned with the antecedents of trust than trust itself. These antecedents of trust have not been emphasized as key sources of competitive advantage in previous research on PFSs. However, in this research, from the customer point of view, the chemistry and the context knowledge embedded in client-professional relationships were highlighted as essential for the development of a competitive advantage. These dimensions further our understanding of the competitive advantage of PSFs.

The focus on chemistry and context knowledge could be linked to the co-produced nature of professional services. While previous studies have emphasized co-production, only limited research has tried to understand how such a way of thinking about service value creation changes what are considered to be key sources of competitive advantage. Moreover, existing research within professional services has focused on co-produced value creation, in the sense that the client takes part in the creation that the PSF achieves. A more extreme – and perhaps more accurate way of understanding co-produced value – seems to be that it can be viewed as value creation where the professional takes part in the client’s value creation. If such a perspective is taken, where understanding and fitting into the client system is at the heart of value creation, it does not seem surprising that contextual knowledge and chemistry stand out as key sources of competitive advantage.

In addition to the nature of value creation, the research presented above in fact suggests that the existing understanding of the nature of professional services should be changed. A key feature of professional services has been information asymmetry, which means that that compared to the seller the client knows less about a particular area where the client has a problem. However, following the findings presented above, it seems that context knowledge – a knowledge area in which the client is the expert – is essential for value creation in professional services. The importance of this knowledge

suggests that rather than information asymmetry, professional services involve a knowledge asymmetry that is two-sided rather than one-sided. It appears, therefore, that the nature of professional services should be defined as involving mutual knowledge asymmetry rather than one sided information asymmetry<sup>23</sup>.

Based on the recognition of the relevance of contextual knowledge, it is not only the client who can be the victim of moral hazard and adverse selection. Professionals can also become such victims to the degree that buyers are not able or willing to co-operate and share the contextual knowledge needed to solve their problems adequately. While the notion of double moral hazard has been pointed out as relevant in professional services in existing research (Løwendahl, 1992, 1997; Homburg & Stebel, 2009), the mutual asymmetries that underlies this double hazard has not been conceptualized. Thus, the study presented here adds to existing research by conceptualizing some of the underlying characteristics of the client-professional relationship that are likely to influence the presence of double moral hazard.

While scholars have pointed out that the need and problem specification is essential for clients in their purchasing process (Mitchell, 1994), little research has focused on ‘problem knowledge’ as a key source of competitive advantage for professional service firms. The frequency with which clients mentioned context knowledge as relevant in this study suggests that such knowledge is likely to be more important than previous studies suggest.

In a recent categorization of professional services, Von Nordenflycht (2010) stresses that customization is not a significant trait of professional services beyond knowledge intensity. The extensive relevance of contextual knowledge and customization for client selection presented in the research above, however, suggests that customization is in fact extremely important. And it is the relevance of customization that makes the mutual rather than the one-sided information and knowledge asymmetry relevant. Thus, customization does have key implications for the nature of PSF value creation beyond knowledge intensity and it should be reintroduced as a defining feature. This insight further refines existing definitions of PSFs.

This study suggests that the maturation and professionalization of clients imply that competition is changing. To an increasing extent, clients are becoming less naïve and are no longer the ‘helpless victims’ suggested in past research. The following quote by an extremely well known and

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<sup>23</sup> For details on the concept of mutual knowledge asymmetry and the difference between the concept of information and knowledge, please see Breunig and Skjølsvik (2011).

successful business entrepreneur in Norway concerning the use of investment bankers for a major IPO in Norway illustrates this point: *'Get the best hookers – they get the biggest money the fastest'* (Retold by a former deputy CEO where the entrepreneur was on the board). In fact, based on this point, one could argue that it is the professionals that are the naïve and helpless victims of the ruthless buyers. While this scenario might be some years down the road, there has been a change towards less helpless buyers and more 'exploited' professionals. Clients have better knowledge of the consulting service and industry and are better able to specify their need and evaluate the competence of different buyers. Thus, the supplier benefits from information asymmetry between the client and the professional seem to be decreasing. The major asymmetry between the supplier and the buyer – and also across buyers – seems to concern contextual knowledge and the belief that the buyer and supplier can in fact work together – which involves 'chemistry'. Thus, while the nature of the relationship seems to have been changing from single to multiple relationships, the relational criteria – beyond trust - seem to have become more relevant for selection and could potentially become even more relevant.

Based on these insights, which reflect a client point of view on PSFs, a new perspective on PSFs – one which moves beyond the trusted advisor – will be proposed. This perspective is presented in Table 18-1. To illustrate the difference between the 'old' PSF perspective and the 'new' client perspective, key differentiating dimensions have been selected and extremes in these dimensions listed. Thus, the indicators for each dimension represent extremes and illustrate the perspectives in a crude way. However, as the intention is to contrast the perspectives, I have chosen to focus on these extremes.

In the 'traditional' view of PSFs, which seems to dominate most of the existing PSF literature, professional services are largely thought of as expert services. From this viewpoint, content knowledge is an important criterion for selection and buyers are seen as unknowledgeable in the area of the professional. Thus, there exists an information asymmetry between the buyers and the sellers. The notion of selection seemed primarily based on the existence of long-term relationships or competitions in the form of 'beauty contests'. Purchasing is primarily decided on by a limited number of managers and does not heavily involve the company's purchasing function.

The 'new' perspective suggests that by taking a customer point of view, it might be so that the PSF should start by assessing the customer to determine what type of business model and strategy to apply. Many professionals of the past have been extensively concerned with their knowledge jurisdictions and used that as a strategic starting point for the firm. As a reaction to this

extensive orientation towards the professionals, this study suggests that strategy making in PSFs to a larger degree should recognize the customer and start with a market rather than a resource assessment. This alternative perspective to strategy making is likely to be helpful for PSFs.

*Table 18-1: A ‘traditional’ and new client based view of PSFs*

Perspective	PSF	Client
<b>Time period</b>	<ul style="list-style-type: none"> <li>• Past to current</li> </ul>	<ul style="list-style-type: none"> <li>• 2005 -</li> </ul>
<b>Nature of value creation</b>	<ul style="list-style-type: none"> <li>• Expert service</li> </ul>	<ul style="list-style-type: none"> <li>• Co-produced</li> </ul>
<b>Key client selection criterion/ competitive advantage</b>	<ul style="list-style-type: none"> <li>• Content knowledge</li> <li>• Firm characteristics</li> </ul>	<ul style="list-style-type: none"> <li>• ‘Chemistry’</li> <li>• Context knowledge</li> </ul>
<b>Buying process</b>	<ul style="list-style-type: none"> <li>• Long-term relationships</li> <li>• Beauty contest per assignment</li> </ul>	<ul style="list-style-type: none"> <li>• Multiple relationships (frame agreements)</li> </ul>
<b>Buying center</b>	<ul style="list-style-type: none"> <li>• Limited number of managers</li> </ul>	<ul style="list-style-type: none"> <li>• Cross functional teams (management, specialist/staff &amp; personnel)</li> </ul>
<b>Level of buyer topic knowledge</b>	<ul style="list-style-type: none"> <li>• Low to moderate</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate to high</li> </ul>
<b>Information asymmetry</b>	<ul style="list-style-type: none"> <li>• One sided</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual</li> </ul>
<b>Level of need specification</b>	<ul style="list-style-type: none"> <li>• Low to moderate</li> </ul>	<ul style="list-style-type: none"> <li>• High</li> </ul>

The ‘new’ view of PSFs also recognizes that professional services are co-produced. As the client perspective is taken, it is not the client that is co-producing the services, but rather the PSF that is co-producing the services to create value for the buyer firm. As it is assumed that buyers are more knowledgeable and professional, extensive knowledge asymmetry does not exist. Rather, the asymmetry is dual in the sense that both content and context knowledge are recognized as essential for ensuring superior co-production of value. Thus, competition is not oriented around expert knowledge, but rather concerns the chemistry and context knowledge and ability to co-produce. Hence, purchasing is often done based on multiple relationships that incorporate competitive as well as co-operative characteristics.

*(C) Relatition®*

In a recent paper, Chen proposes that competition and co-operation represent different paradigms and that it is necessary to take a ‘transparadox’ perspective and look at the interplay between them. One example of the interplay is the notion of co-opetition

(Brandenburger & Nalebuff, 1996), which suggests that while companies might compete in some business areas, they might co-operate in others. Thus, co-opetition is primarily a horizontal concept of the interplay across competitors. This study presents an alternative illustration of the interplay between competition and co-operation, which concerns vertical – buyer-supplier – interaction in the value creation system. This combination of relational and competitive vertical interaction will be referred to as ‘relation’<sup>®</sup> in the following.

Relation takes place where companies develop multiple relationships with suppliers – for example in the form of parallel frame agreements. As assignments arise, competitions between those that have a relationship are arranged and a supplier selected. An alternative form of relation is where the firm seems to have relatively fixed relationships, but as larger assignments arise, competitions between more suppliers are held. While one supplier could be preferred over competitors based on their relationship, contextual knowledge and problem understanding, over time the relationship is tested in a competition, to ensure that the price level is appropriate and to overcome the problem of motivational sacrifices. As pointed out by a business development manager at the subsidiary of a major Norwegian publically traded firm: *‘...it is very healthy to have at least two or three actors...that can offer these [services]...the danger is that the consultants get too familiar...that they become too internal. But they should also feel that there is some competition...’* Thus, while existing research highlights benevolence trust as a key characteristic and benefit of long-term relationships, this quote illustrates a case where benevolence trust is reduced in the course of the relationship. Relation seems to be used among buyers to secure supplier motivation and reinstate benevolence trust.

Thus, buyers use relation as a mechanism to ensure that they are content with the level of motivation and effort among suppliers. At the same time, buyers have increasing knowledge in the areas of the PSFs as they often have professionals with experience from the particular professional service employed internally. These professionals can evaluate the external service being purchased. Thus, the knowledge asymmetry in the area of content knowledge seems to be decreasing, which could suggest that the need for ability based trust is also decreasing.

Buyers seem to be concerned with benefits of relationships that concern chemistry and knowledge of their firm. These relationship benefits are not primarily related to exclusive long-term relationships as in the case of trust. Rather, they can be found in multiple supplier relationships. At the same time, multiple relationships enable buyers to check the price level of their services and limit the sacrifices of exclusive relationships – in terms of

knowledge saturation and lack of motivation. Based on these arguments, I argue that in many instances relation is a superior way of buying professional services.

In fact, following the relational and competitive nature of relation, the appropriate label for a firm's superior ability to create value should not be 'competitive advantage' as proposed by the competitively oriented tradition in strategy research. Rather, a more appropriate label that seems to incorporate both the relational and competitive advantage is 'relational advantage'. By recognizing relation as a market structure, the dependent variable can be argued to be the relational advantage of firms rather than the firms' competitive advantage. Thus, relation is not merely a way to explain the independent variables that impact a firm's competitive advantage. Instead, it changes what is being explained from a competitive to a relational advantage.

### **18.2.3 Practical implications**

Before considering the practical implications in detail, it seems important to address the types of contexts in which the research results are applicable. The empirical research above has focused on administrative professional services, and the observed phenomena are likely to be highly applicable to these types of services. However, beyond this, the findings are likely to be applicable to more technical professional services to the degree that the service characteristics are similar. Thus, in addressing the implications for practitioners, the primary target groups are buyers and sellers of administrative professional services, but to the degree that the nature of value creation in professional services is applied in an increasingly wide variety of industries – as argued in Chapter 1 – the results presented above could have implications beyond the particular empirical context that has been studied here. Only the future will reveal the ramifications.

In discussing practical contributions in detail, it seems relevant to separate between (A) the buyers and (B) the professionals. In addition, I want to add a personal edge to the presentation and include (C) implications for me personally. Implications for each of these stakeholders will be discussed in the following.

#### *(A) Buyers*

From a buyer point of view, the research above provides insight into alternative approaches that can be used in purchasing professional services. This insight is likely to be beneficial in improving the purchasing efforts of buyers. In particular, this study suggests that the single relationship approach might be suitable where the buyer is inexperienced and unable to develop a

need specification; has urgent or frequent needs; and where confidentiality is needed. However, the study also suggests that relationship benefits can be gained through multiple relationships and that these relationships limit the risk of decreased motivation and knowledge saturation among buyers. At the same time, the use of multiple relationships offers an opportunity to ensure that the price of a service is in line with others, or better than that of competitors. Thus, as a buyer becomes more experienced, it could be an alternative to use more suppliers where available.

An important point made by a number of buyers was that client knowledge and their ability to develop need specifications strengthens their position relative to suppliers. Thus, hiring employees with knowledge of relevant areas where services are likely to be bought and potentially with their own personal experience from PSFs, might be beneficial for firms as they are likely to receive much better services from PSFs. To enable clear need and mandate specifications, it could be of help to develop specific internal guidelines on what a specification of a consulting project should consist of. Developed specifications could also be stored and be accessible to future purchasers. Alternatively, a particular person could be assigned to assist all professional purchasing initiatives across the company – for example from a purchasing function.

Past research suggests that the purchasing function has only been involved in the purchasing of professional services to a limited degree, and that managers are reluctant to involve purchasing in this area (Werr & Perner, 2007). The research presented here suggests that this is changing, and that purchasers across firms undertake different types of roles. In particular, the research above illustrates how purchasing could be an important guardian of the law in the public sector, and a process facilitator of the purchasing process across sectors. However, as the knowledge of clients and their ability to specify their own needs increases, purchasing is likely to have an impact in terms of a heightened level of competition. In turn, the increased competition is likely to increase the relevance of involving purchasing, for a number of reasons. First, purchasing functions have relevant knowledge of negotiations. Additionally, as frame agreements are becoming increasingly used among buyers, purchasing efforts are likely to become more centrally organized. As the purchasing functions develop their competence as process guides, they could be important co-coordinators of selection, negotiation and play a central role in the formalization of parallel relationships. Thus, this study suggests that managers and others involved in buying professional services should acknowledge the increased relevance of the purchasing function and the benefits it is likely to add.

The in-depth cases show the relevance of multiple functional teams in the selection of PSFs. These teams typically include initiative owners, managers and specialists, as well as purchasing. As these different functions are included in the team, different interests are incorporated in the team and many considerations are included. For example, managers and project owners whose work performance is dependent on the performance of the professional, are particularly concerned with knowledge and chemistry. On the other hand, the purchasing function typically emphasizes that the chosen gross value is purchased at the right price. Thus, to reflect different perspectives of a purchasing decision, buyers should think through how they can incorporate different interests and utilize multi-functional teams in doing so.

In addition to insight into purchasing processes, the list of selection criteria presented above represents an interesting starting point in understanding what to look for in a service supplier. It gives an extensive list of relevant dimensions to consider. These dimensions are likely to be of relevance in understanding what is important for the particular buyer and in comparing alternative suppliers. In particular, buyers should consider the relevance of co-production in professional services and selection criteria that support this type of value creation, in their selection. This study suggests that important relational dimensions to consider are chemistry and contextual knowledge.

*(B) Professionals*

First of all, professionals should recognize that many buyers have moved beyond preferring trusted advisors for most professional services towards a relational competitive state referred to above as relation. Thus, a key question for professionals is likely to be how they are to compete under these new conditions. In developing such an understanding, there are likely to be great benefits for professionals from trying to understand and categorize the buying processes and selection criteria of their customers. The buying process framework presented above could be used as a conceptual framework in this process. By understanding the processes, PSFs are more likely to be able to understand relevant criteria that are important for customers and essential to achieve success.

At a strategic level, previous research and the study presented here suggest that as buyers become more knowledgeable and sophisticated, they increasingly use two alternative approaches when selecting PSFs: direct selection based on referrals and market knowledge or selection based on multiple relationships under relational market conditions.

To be selected by buyers it seems necessary to respond to the buyers' approaches and choose strategies that fit with their purchasing processes, to

avoid not being selected at all. In the case of direct knowledge based selection from referrals or reputation, buyers seem to look for firms with particular specializations. However, due to the commoditization of knowledge and as clients are becoming more knowledgeable, they seem to an increasing degree to be looking for capacity, contextual knowledge and chemistry. This development has been reinforced through the increasing use of multiple pre-selection. In the case of multiple pre-selection and relational market conditions, it seems that buyers are often looking for larger firms with more capacity, which suggests that they demand a broader set of services. Thus, depending on degree to which buyers apply these different strategies, PSFs should be wary about whether they develop a strong specialization or take a more generalist approach.

The selection between specialist and generalist strategies needs to incorporate an understanding of the demand for content and context knowledge in client problem solving. While size enables firms to overcome the generalist-specialist trade-off to some extent, as they can be broadly specialized, practicing professionals should ask themselves: how important are these types of knowledge to be able to solve the client's problem? They should thoroughly consider the degree to which context specific information is required in approaching and solving the client's problems. Thus, the research presented above urges professionals to discuss the degree to which mutual knowledge asymmetry rather than information asymmetry characterizes the services they supply.

The same considerations as those pointed out relative to the generalist and specialist strategies applies to the PSFs' selection of brain, grey hair, or procedurally based business model, which corresponds to developing a competitive edge based on expertise, experience or efficiency (Maister, 1993). As these strategies involve resource leverage trade-offs, developing consistent business models seems important. This study adds the customer perceptions of value as a relevant component to ensure that companies achieve alignment in their selection of business models beyond resource leverage. In particular, the findings seem to suggest that in the area of APSFs the expert based consultancy could be likely to be preferred among extensively knowledgeable clients that 'cherry-pick' the best firm in a particular area. This behavior corresponds to the lack of relationship orientation found among expertise based firms. On the other hand, the experience based consultancy is likely to be of extensive relevance in embedded and political processes where contextual experience and knowledge is important. Finally, the efficiency based companies are likely to be preferred by price conscious customers through multiple pre-selection. As certain customers seem to prefer firms with different types of strategies, PSFs could benefit extensively from incorporating the customer into their

considerations of their business model alignment. Thus, the choice of business model should not only be made based on a desire for resource alignment, but based on an evaluation of the likeliness of achieving resource-customer alignment.

This study provides new insight concerning the relevance of different types of clients for the selection of client relations, problem solving, and solutions oriented PSF strategies (Løwendahl, 1992, 1997). Client relations based strategies are most likely to be preferred by clients with embedded problems for which contextual knowledge is important to find good solutions. For these clients, the relationship is likely to be particularly valuable. In the case of problem solving based strategies, the services offered by these types of PSFs are likely to be particularly valuable for clients with non-embedded critical problems that need expert knowledge. Finally, PSFs with solution based strategies seem likely to be most sought after by clients that need 'bread and butter services' and evaluate both price and value in their selection. Thus, to ensure alignment, PSFs should not only consider the individual-collective resource trade-off, but also the purchasing processes and the relevance of content and context knowledge and price as selection criteria among buyers.

In terms of the client-professional relationship, the empirical study presented here provides insight into the dimensions of the relationship which are truly relevant to add to client perceived relationship value. Rather than taking arbitrary initiatives to develop trust, the key orientation of the professional should be learning the client's business and making sure that there is organizational fit as well as individual chemistry across the PSF and its clients. Thus, strategy for PSFs should not only be about the type of knowledge that the PSF has, it should also be about developing a culture and hiring people who fit the intended client's culture and people. It might be difficult to fit all clients. However, making a choice is important – otherwise you might end up in a stuck-in-the-middle position, where you are in fact preferred by no one.

In terms of the relational contingencies identified above, they should be used actively by PSFs in customizing and targeting their sales processes. In particular, the research suggests that PSFs apply a generalist strategy and focus on long-term relationships with clients who have one or more of the following characteristics:

- (1) Have urgent needs
- (2) Have frequent needs
- (3) Have generalist needs
- (4) Have confidential or strategic needs
- (5) Need small assignments

- (6) Have limited knowledge of the particular topic areas; and
- (7) Are poor at developing need specifications

Even though these characteristics are relevant, existing research suggests that it is essential for companies in general (Porter, 1990) and PSFs in particular (Skjølsvik et al., 2007) to have demanding and knowledgeable customers to develop knowledge and be innovative and competitive over time. Thus, beyond targeting clients with the above listed characteristics and developing contextual knowledge about these customers, it is essential from a longer-term perspective to develop relationships with more demanding buyers, buyers who, based on the research presented above, are likely to hold multiple relationships. These parallel relationships will place extensive demands on the PSFs in terms of their efforts and knowledge – which makes the PSFs more competitive over time. Also, the fact that these buyers are using other companies may enable the PSF to renew and rethink their approaches and learn from the client, based on the work that other PSFs are doing with the organization which helps them overcome knowledge saturation.

This study suggests that in developing a relationship based advantage, two types of resources are particularly important for PSFs: client specific knowledge and the interpersonal skills of the individuals they hire. PSFs should think through how they record, facilitate and manage not only content knowledge, but also client specific context knowledge. To the degree that knowledge storing and sharing is properly facilitated, it could help professionals leverage the context advantage they might have – especially under conditions of relation.

Additionally, the research presented above suggests that it could be essential for a PSF to comprehensively think through the combination of professionals that they present to the buyer, in respect of the buyer's perception of chemistry. Thus, the staffing function in the firm should be developed, to consider not only the content knowledge of the individuals, but also the context knowledge and understanding, in addition to the types of people with which the particular consultant is likely to have good chemistry. Personality tests might be one way to enable the categorization of employees. Alternatively, listing non-work related interests and other social skill indicators could be a less revealing way to get some sense of these issues. While there might be 'personal security' issues related to such listings – companies should make a thorough examination of how they approach these areas. To ensure further development in the contextual knowledge area, client organization socialization and instruction in business cultures are suggested as important initiatives to undertake for new hires.

A concern relative to the investment in client specific knowledge strategy is that it is difficult to leverage across buyer firms – and represents a risky investment. Additionally, client knowledge is likely to be of some value across the same industry and sector and can potentially be used as a substitute for client knowledge in sales processes within the same industry. Thus, focusing on specific industries might be particularly valuable for PSFs to limit the risk related to an investment in context knowledge.

*(C) Personally*

Going back to the poem by Sylvia Plath which was quoted in the introduction, it seems remiss not to incorporate some of the personal learning from the research presented above, in the practical implications. Above I have discussed how marketing scholars have made extensive use of personal relationships – particularly marriages – as analogies to describe firm relationships. In the area of PSFs, the high school dance has also been used as an analogy of PSF mergers (Empson, 2000). Throughout the research process, I have increasingly taken an alternative perspective and tried to cross-reference insight from my research into my personal life.

First of all: I have learned to recognize the fact that relationships do develop ‘then and there’. As I meet new people, I am continuing to be fascinated by the fact that there are some people with whom I ‘click’ and with whom I know future interactions will be extremely ‘easy’. At the same time, there are other people with whom I have ‘bad chemistry’ and with whom it becomes hard work to be around them at all. Secondly: In the case of both existing and new relationships, I really am fascinated by the relevance of contextual knowledge and how it functions as lubricating oil in a relationship.

However, even though such contextual knowledge enhances the relationship, my personal experience is that where there is no chemistry – the contextual knowledge does not seem to matter. This might suggest that chemistry comes first and contextual knowledge follows in the establishment and development of relationships. At the same time, the research shows that contextual knowledge in itself impacts the perception of chemistry – which makes the two to some degree mutually reinforcing.

Another personal conclusion concerns the case of multiple parallel relationships. In the case of marriage, this is a difficult area. While some cultures allow bigamy, most Western cultures do not sanction multiple simultaneous marriages. Again, an analogy to the research above might be relevant: multiple relationships are difficult grounds for developing trust. As husbands and wives are tempted by momentary chemistry and are unfaithful, trust in the marriage is eroded. Thus, the development of long-term

relationships is not only dependent on initial chemistry, but seems to demand faithfulness to retain trust and contextual knowledge for lubrication.

My personal experience and conclusions from the research above are that combining long-term single relationships with multiple casual relationships is difficult. It will be interesting to see over time whether professionals that focus on clients that hold multiple relationships will end up feeling like betrayed husbands and wives.

### **18.3 Research quality**

The following describes the measures taken to ensure adequate research quality in the research presented above. In turn, limitations of the research are presented.

#### **18.3.1 Measures of research quality**

Miles and Huberman (1994) identify five main areas to consider in determining the quality of qualitative research: (A) objectivity, (B) reliability, (C) internal validity, (D) external validity, and (E) utilization. An overview of key measures taken to increase the quality of the research within each of these areas is presented in Table 18-2. Each of the measures will be presented below.

##### *(A) Objectivity*

Objectivity concerns measures taken to ensure the neutrality of the research. An important measure taken in this study concerns the in-depth treatment of the research design, which enhances the transparency of the research. The case studies are described in depth and details of the informant interviews are reported through the use of matrices in appendices. Additionally, personal assumptions were explicitly addressed above and included reflections on my biases in the collection and analysis of the data.

##### *(B) Reliability*

Reliability concerns the consistency of the research process and findings and the degree to which it is possible to replicate the study. While replication is particularly difficult in qualitative research, it is important for research quality to ensure that the procedures done and choices taken throughout the research efforts are well documented so that future researchers are able to test and validate proposed results. A number of measures were taken to ensure reliability. Firstly, the research questions posed above are clear. Additionally, extensive efforts were made in the data collection to limit my influence on the research so that it is possible for others to tap into the phenomena under study and take on a similar role to mine. My desire and intent for objectivity was discussed extensively in the chapter on research

design. Additionally, different types of data in the form of interviews and observation were used and studies were done across organizations to enable triangulation. Also, inter-rater reliability was checked for the coding of the selection criteria. The kappa including overlap was 0,52, which suggest a moderate fit. Details on this analysis are presented in Appendix 10. The process of doing this comparison triggered me to revisit the description of my codes to ensure that the content of the codes could be easily understood, used for coding and tested by future researchers. Another measure to increase reliability was to present the findings of my study to four of my colleagues at the Department of Strategy and Logistics at the Norwegian School of Management for their feedback. The research has also been presented to students in a discussion class on professional service firm value creation.

*Table 18-2: Evaluation of research quality*

<i>Evaluation criteria</i>	<i>Description of criteria</i>	<i>Measures taken</i>
Objectivity	Measures taken to ensure neutrality of the research	In-depth description of methods for transparency
		In-depth data description and displays
		Explicitness about personal assumptions
Reliability	Consistency of research process and findings	Clear research questions
		Description of researcher's role and status
		Triangulation of data
		Variation in types of respondents
		Coding checks for criteria
		Peer review
Internal validity	Choice among alternative explanations	Link to existing research
		In-depth observations
		Practitioner review
		Triangulation for conversion of findings
		Uncertainties identified
		Inclusion of negative evidence
External validity	Generalizability of insight	Maximization of differences approach
		Thick description/detailed informant overviews
		Peer review
		Discussion of applicability across settings
Utilization	Usability	Practical implications for local problems
		New insight among practitioners

*(C) Internal validity*

Internal validity concerns the choice between alternative explanations. To ensure internal validity, the research presented here is closely linked to existing research. Even so, it explains unexplored areas of research and contradicts established insights. Thus, to ensure that the explanations are plausible, the research has been presented to academic peers and practitioners. The study includes in-depth observations that allow detailed descriptions of the background for the choice of categorization or explanation. Throughout the presentation of results I have tried to link findings as closely as possible to the empirical data, in the form of matrices and quotes. Additionally, triangulation of observation and interview based material shows a convergence of findings. Contradictions of insight and uncertainties have been highlighted rather than hidden throughout the presentation of the research.

*(D) External validity*

External validity concerns the degree to which insight from a study is generalizable across contexts. To ensure generalizability, the research presented above used a maximization of difference approach in terms of the nature of purchasing processes and type of administrative business professional services. By looking at similarities across diverse types of processes, the findings are likely to be more universal and generalizable than if a less diverse set of processes had been chosen. In the description of cases and interviews, detailed information has been provided. A limitation in this presentation was informant and case confidentiality. However, the presentation of the cases and informants gives very good insight into the collected data. The presentation of the insights to peers and practitioners – who understood and seemed to agree with them – also strengthens the external validity of the research. External validity was also touched upon in the discussion of the practical implications of the findings.

*(E) Usability*

As a final point, the degree to which the research is useable is important to judge quality. Above, extensive insights for buyers and sellers of professional services were proposed. These seem to suggest that the usability of the research is extensive. The applicability of the research was tested in practitioner presentations and the practitioners stated that the insight was interesting. These presentations gave valuable feedback and ideas for action that could be taken and for future research.

#### **18.4 Research limitations**

The discussion of research quality shows that extensive measures have been taken to ensure the quality of the research presented above. While more initiatives could have been taken, the resource limitations and time pressure have limited my ability to do so. Thus, the compromises that haunt every research endeavor imply that the study presented above has several weaknesses and limitations.

First of all, the empirical study has primarily focused on larger buyer firms, due to the infrequency and limited amount of such purchases among smaller firms. While it could be argued that the processes that they would be likely to use are covered by those found in larger firms, the selection of cases could be claimed to be biased as smaller firms are not included.

Additionally, as for any research endeavor the cases included in the study have to a large extent been selected based on opportunities to get access. This has meant that there is an unequal distribution of cases across different types of administrative professional services. If the selection had been done by selecting an equal number of cases from the different types of services, this could have impacted the results. While variation in service industry was incorporated in the discussion of contingencies, the extensive emphasis on management consulting services could be claimed to limit the generalizability of the findings. Also, the generalizability across all professional services, and in particular technical professional services, could be questioned based on included cases.

The presented study was done in Norway, which represents a very limited geographical scope if the intention is to understand purchasing of professional services on a global scale. It was argued in the chapter on methodology that the selection of this market represents an interesting extreme, as it was classified by professionals as a mature market. Even so, it should be compared to studies in other markets to develop a better understanding of the generalizability of the results.

Concerning the nature of client-professional relationships, there are likely to be differences across countries and regions which have not been taken into account in the research presented here. This difference was pointed out by a highly experienced consultant who has worked extensively across Europe. He emphasized that while client-professional relationships are relatively professional in Norway, they are likely to be far more personal in other parts of Europe; and while 'winning and dining' becomes less relevant in Norway, it is much more prevalent in Southern Europe.

The study presented above has a multifaceted method. While this method was used as a result of the nature of the phenomenon under study and limitations in data access, it would have been preferable to have a more uniform methodological approach across sectors, firms and respondents. While this approach has enabled extensive triangulation, it has also limited the opportunity to keep certain facets of the research phenomenon constant, while ensuring variation in others to trace causality and interrelationships.

There are several weaknesses in the research process due to two periods of maternity leave, totaling three years. As cases were not studied at exactly the same time, it could be argued that cases across respondents are not truly comparable. I would have been more concerned about this bias if the study had encountered major changes in the economic conditions of firms and the nature of competition in certain industries. However, the data was collected between 2005 and 2007, which was a relatively stable growth period in most professional service industries. I was fortunately not required to collect data before and after the sub-prime crisis in the US, which heavily impacted the world economy and many PSF industries. On the other hand, the data does not say anything about purchasing processes under such conditions, which in fact can be claimed to limit the generalizability of the research.

The research was conducted as an individual journey rather than a team adventure. Thus, the results and analyses presented above is the work of one researcher and represent a major learning process for me. The research is likely to have been strengthened if it had been carried out in close collaboration with a group of researchers that could have functioned as ‘devil’s advocate’ towards the ideas presented above. Fortunately, this is mitigated by the fact that I consider myself one of the worst critics of my own work. However, more interaction with a variety of people – beyond my informants – would most probably have improved the work presented above.

### **18.5 Suggestions for future research**

The research presented above has revealed a number of opportunities for future research of which a selection will be presented in the following. The discussion of these opportunities will be divided into five main sections: (A) relation, (B) the RBV, (C) PSF strategies and value creation, (D) relationships as sources of advantage, and (E) professional service purchasing.

#### *(A) Relation*

The research presented here has studied client selection processes, which lead to the identification of multiple client-professional relationships and the suggestion that professional service markets as relational. Future research

should be done to study this phenomenon across industries, across various types of value creation such as services and products, and across geographies, as well as economic cycles. In this research, attention should be paid to variation in forms of relation in the quest for a typology. In understanding relational markets it also seems relevant to further explore the conditions under which such markets exist. My study has suggested some contingencies of relationship value. While relation has been driven by regulation in the public sector, the research presented here suggests that as buyers become more professional, they are likely to increase the use of multiple relationships, which could give an indication of the superiority of relation over pure competition and relationships. However, a better understanding of whether this is true and under what conditions it might be true, is needed.

Also, developing in-depth knowledge of the implications of relation seems interesting. Above, under personal implications, it was suggested that relation can be highly problematic as competition drives out trust inherent in exclusive relationships. A related and highly relevant question to ask in this respect is: How will the application of the ‘mistress’ model as a substitute for marriages play out in the business world?

*(B) The RBV*

Building on past research, the ‘open’ RBV has highlighted the importance of understanding resource control and the ability of different stakeholders to extract rent from particular resources. Previous studies have been concerned with bargaining power of internal stakeholders (Coff, 1999; Lippman & Rumelt, 2003). However, if control is to be linked to resource interdependence, a more complex perspective which involves interaction and interdependence of resources is needed. In fact, in such an endeavor, interdependence that comes from interrelated resources, as well as other types of interdependence should be considered to get a real understanding of control. Such a realistic, but highly complex perspective on resource control has to my knowledge not been taken into account by past scholars and offers an interesting avenue for future research.

Additionally, the RBV still needs empirical research on the resource demand side to develop more insight into relevant dimensions of resource value from a customer and market perspective. Also, developing an understanding of the contingent nature of resource value seems interesting.

*(C) PSF strategies and value creation*

The increasing knowledge and professionalization, as well as use of relational purchasing strategies among buyers, suggests that sellers of professional services need to rethink how they work with clients. Research

that studies how professional service firms refocus and change their strategies and sales efforts in the age of relation is greatly needed. To the degree that such a research effort would study the successful firms compared to those who are less successful, it could enable us to better advise PSFs on how to further develop their strategies.

Above, alternative PSF strategies in the form of specialist and generalist were proposed as alternative paths for firms under the condition of relation. These alternative strategies should be further explored in future research to give more accurate and empirically based recommendations. One interesting starting point would be to look at these different strategies using a resource partitioning model (Carroll, 1985) to understand how generalists and specialists co-exist in professional service markets.

The research presented here has proposed that trust is less emphasized by buyers compared to professionals as a source of competitive advantage. It would have been interesting to see more research on the differences in discourses across buyers and sellers of professional services to understand key differences in a supplier and buyer oriented perspective on professional service value creation.

In developing an understanding of appropriate strategic initiatives by PSFs under relation, it seems interesting to further explore how professionals work to develop and facilitate client-professional chemistry and contextual knowledge. Also, the relevance of size as a value driver in professional services seems interesting to study. While size has been emphasized extensively as a driver of cost in past research, limited work has been done to fully understand the relevance of size in problem-solving based value creation (Skjølsvik, 2007). More research is needed in this area.

Additionally, the concept of mutual knowledge asymmetry should be further explored conceptually and empirically to further our understanding of value creation in professional services. Understanding the applicability and implications of the mutuality of the information asymmetries across contexts seems like a very interesting avenue for future research.

As a final point under PSF strategies and value creation, I would like to draw attention to a peculiar phenomenon I discovered through the limited insight I have gained on client evaluation of professional services. As I studied clients' evaluation of APSFs as part of an evaluation process in RedOrg, it surprised me that most buyers were generally satisfied with their suppliers. Such a high level of satisfaction has also been found in past research on administrative professional services (Roodhooft & Van den Abbeele, 2006). At the same time, previous research has shown that satisfaction is an

important measure of quality and value in professional services and impacts repurchasing intentions (Patterson, Johnson & Spreng, 1997; Patterson & Spreng, 1997). Thus, this might suggest that as long as professional service providers are able to keep clients satisfied, they are likely to be repeatedly used in an organization. While past research has looked at expectations, performance, purchasing situation and individual stakeholding to understand this, it seems essential to broaden the perspective on satisfaction and try to understand not only on what dimensions PSFs are selected, but also on what dimensions buyers are satisfied. Further, it seems interesting to understand how the role of satisfaction as a measure of repurchasing intentions is relevant in the case of relation.

*(D) Client-professional relationships as sources of advantage*

Two dimensions of the client-professional relationship were pointed out in particular, as sources of customer value: chemistry and contextual knowledge. More research is needed to develop an even better understanding of these sources of advantage and the contingencies that impact their value.

Specifically, developing a better understanding of the role of interpersonal chemistry in interorganizational relationships in general and the client-professional relationship in particular seems relevant. The chemistry of client-professional relationships has been mentioned as relevant across studies of client selection criteria presented above. However, very limited elaboration of the nature of this chemistry currently exists. A search in the Business Source Complete database gave only three relevant hits, where the role of interpersonal chemistry in interorganizational relationships was mentioned. This could be related to the fact that many scholars might be using alternative concepts than chemistry. For example Palmatier et al. (2006) refer to similarity. Even so, a comparison of existing literature and the different concepts used is likely to be informative and could function as a starting point for further exploration.

Adjacent research traditions might also be useful to develop a further understanding of interpersonal chemistry in interorganizational relationships. Within social-psychology and sociology, different theories have highlighted the relevance of similarity in relationships. Examples are similarity-attraction theory (Byrne, 1961; Berscheid & Walster, 1969; Byrne, 1971), social identity theory (Tajfel, 1972, 1974), and self-categorization theory (Turner, 1982, 1985). These theories suggest that people are attracted to people who are similar to themselves, which also suggests that the chemistry is likely to be higher among people who are similar. Also within social capital theory, identification across parties is pointed out as an important mechanism in the transfer of intellectual capital (Nahapiet & Ghoshal, 1998). It would be interesting to relate these theories to client-professional

relationships in particular and interorganizational relationships in general, to develop a better understanding of the notion of ‘chemistry’.

In addition to chemistry, contextual knowledge emerged as an important benefit of client-professional knowledge. However, while buyers seem to favor multiple relationships that enable a state of relation, they appear less concerned about the cost of having multiple relationships. This is especially relevant for PSFs, which are demanded to invest in keeping updated on particular clients. However, to the degree that the client holds more relationships, the PSFs do not know if this investment will yield results in the form of future projects. Previous research on social capital highlights the cost of relationships (Adler & Kwon, 2002; Edelman et al., 2004; Lavie, 2006). However, limited work has been done to understand the cost of multiple relationships. This seems particularly relevant in order to further explore and understand the net value of relation.

In addition to the key relational dimensions of value identified above, an interesting finding was the lack of emphasis that buyers put on trust in their selection. It was proposed above that trust was not a key selection criterion, because buyers were increasingly integrating trust into their process of selection – through the use of relation. However, there is an opportunity in future research to look for alternative explanatory mechanisms regarding the lack of emphasis on trust. Existing research on professional services has argued that institutional mechanisms could be used as substitutes for transactional uncertainty and risk (Armbrüster, 2006). Thus, further research exploring whether trust has ‘disappeared’ and where trust has ‘disappeared’ to, seems very interesting.

The ‘professionalization’ of the relationships, in the sense that buyers are making increasing use of multiple relationships, could be linked to the nature of the relationship. As each buyer has more relationships, there is likely to be a decreasing level of trust – as seen in the research – and the sharing of intimate information is likely to decrease, which in turn could make the relationship even more distant and impersonal – suggesting that the de-personification of relationships is likely to continue over time. Exploring whether such a de-personification is taking place represents an interesting avenue for future research.

*(E) Professional service purchasing*

The area of professional service purchasing has been a largely neglected area of research in general. Thus, extensive research is needed in this area. Firstly, the purchasing process typology and typology of selection criteria presented above should be tested for its generalizability across contexts. In particular, it would be interesting to further understand relevant

contingencies for the emphasis of different processes and criteria. The study above indicates that the nature of buyer need rather than the type of professional service industry is a key contingency for the impact of client-professional relationship for client selection. Even so, it seems interesting to develop more insights into the relevance of different types of purchasing processes and client-professional relationships across industries and services. Also, a more quantitative approach to testing the proposed typologies seems like an interesting path for future research.

Additionally, the research above suggests that further research should be done to understand the role of the purchasing function in the purchasing of professional services and how this role is changing over time. While some research has been done to develop a typology of roles that purchasing undertakes and has pointed out that this involvement corresponds to the formalization of processes (Werr & Perner, 2007; Perner & Werr, 2009), there is room for much more research in this area. In particular, it seems intriguing to further study the purchasing of professional services in the public sector – which offers a highly formalized context and the ability to develop a better understanding of the role of the purchasing function as ‘guardian’ of public purchasing regulation.

Finally, the research presented above has indicated that the status of the general purchasing function is growing and that purchasing managers are increasingly being included among divisional and top management. In fact, one might suggest that following the trend towards focusing on core competencies and outsourcing, companies to an increasing degree buy strategic products and services. This development can be linked to the ‘rise’ of the purchasing function, which seems to have been achieving higher levels in the organizational hierarchy and management ranks in many organizations. Thus, one might suggest that the purchasing managers will follow the ‘rise’ of the IT and HR managers, who have experienced extensive increases in strategic relevance over the last 20 years. It would be an interesting avenue for future research to explore whether the significance and relevance of the purchasing function has been and will increase in the 10-15 years to come and how their function and position in organizations is likely to change.

### **18.6 Concluding remarks**

When I started the work on my PhD I was aiming to find answers. And some answers I have found. Even so, after innumerable hours of observing and interviewing buyers and sellers of professional services, the majority of what I have found are questions – and I have ended up with even more questions and ideas than what I had starting out. It has amazed me to see that while the life as a consultant concerns structuring problems and finding solutions, the

life as a researcher is overwhelmed with ideas and new interesting research questions. Even so, a commonality and the biggest challenge for both the consultant and researcher are deciding which problems and questions to explore and answer. Thus, while the work on my PhD has left me struggling to get all the 'branches of my life tree' to blossom, the words by Sylvia Plath continues to snare my thoughts as I try to choose which research questions to pursue in the future and which ones to leave for others:

*But as I sit there trying to choose,  
the leaves begin to turn brown and blow away  
until the tree is absolutely bare.*

## Epilogue

I am back in the office of one of my previous consulting employers. They have called me in to talk about the insights I have gained through my PhD project. I address the concept of a client-professional relationship and how it has been and is likely to be changing. One of the managing partners turn to me and asks: 'What about the fact that many of our clients have become increasingly professional over the last 5-10 years: they have multiple relationship – they have frame agreements – and make us compete like cats and dogs. Our clients are our own or a competitor's past employees and the purchasers are breathing down their necks. They know the 'secrets' of consulting and demand hard work. Where is it going to end? The trust in the consulting business is gone. What can we do?'

I take up a slide of my presentation which lists my ideas on consulting strategies under relation. I explain to them the concept and its implications for how they compete – and the dimensions they should especially emphasize under relational conditions. Time is running out and I need to leave the meeting to run off to one of the other branches of my tree of life – my family.

As I exit the room the partners are just starting to discuss. I hear them trying to find managerial insights from the ideas I have presented. One of them asks: 'So how can we make sure that we are best at 'chemistry' and 'context knowledge'. We might need to change the way we run this firm. The same partner turns to his colleagues: – Do any of you have ideas on how to proceed?'

As I enter the elevator I am quietly thinking to myself: My work here is done.



**APPENDIX 1: Overview of quantitative research on sources of CA for PSFs**

Abbreviations: SIJ = The Service Industries Journal,  
 AMJ = Academy of Management Journal,  
 OSc = Organizational Science  
 OS = Organization Studies

Author(s)	Year	Journal	Dependent	Industry	Significant impact	Not significant impact
Nachum	1996	SIJ	Competitiveness - 1. Performance (combination of profit and market share) - 2. Survival	Advertising	Creativity - Prices from Cannes (1 and 2) Employee quality - Salary relative to industry average (2) Reputation - Client opinion (1 and 2) Firm age (years) - Internationally (1 and 2) Size - Total income (2) Scope - # of defined service categories offered (1 and 2) Internationalization - Share of revenue abroad (1 and 2)	Employee quality - Productivity: Turnover per employee (1 and 2) - Salary relative to industry average (1) Client-supplier relationship - # of accounts lost during last year (1 and 2) Firm age (years) - Domestically (1 and 2) Organizational structure - Concentration of control (1 and 2)
Pennings et al.	1998	AMJ	Firm dissolution	Accounting	Human capital - Partners' educational level - Partner firm experience - Partner industry experience Firm size - # of professionals Leverage ratio - Associates to partners Social capital - # of partners coming from/ leaving to client environments	Turnover - # of partners leaving the firm Social capital - # of associates coming from/ leaving to client environments Firm age (years)
Hitt et al.	2001	AMJ	Firm performance* (net income/ total revenue)  *Firm size controlled for	Law	Human capital - Quality of educational institution and experience Leverage - Associates to partners	Service/geographic diversification - 5/4 largest service areas/branches compared to the total # employees (Herfindahl index) Corporate clients - # of clients among 250 largest US corporations

## Appendices

Author(s)	Year	Journal	Dependent	Industry	Significant Impact	Not significant Impact
Greenwood et al.	2005	OSc	Firm performance (revenue per professional)	Accounting	Reputation - # of positive media reports Leverage - Total # of employees per partner Size - # of professionals	Diversification (service) - Portion of revenue across service lines Size - # of offices Merger or acquisition - Taken place last year (dummy)
Hitt et al.	2006	AMJ	Firm performance* (net income/ total revenue)  *Firm size controlled for  Also included internationalization as dependent variable	Law	Human capital - Quality law school, firm & legal experience Relational capital - Duration and internationalization of top 250 corporate clients /international government Firm size . # partners Leverage . Associates per partner Internationalization - # of offices and lawyers	Service/geographic diversification - Largest areas compared to the rest (Herfindahl Index)
Greenwood et al.	2007	OS	Performance (Total revenue per professional)	Management consulting	Size - Revenue - # of professionals Ownership - Private + - Partnership +	Firm age Geographical complexity - # global offices
Nordenflycht	2007	AMJ	1. Firm performance* (growth rate/ CAGR 3 years) 2. Creativity (number of awards)	Advertising	Firm size - Revenue	Ownership (1 and 2) - Public (dummy variable) Creativity (1) - # of awards

**APPENDIX 2: Interview guide**

Research question	Areas	Topic	Questions asked customers	Questions asked professionals
NA	Informant background	Current position	What is your current position at company x?	
		Background	Could you start by briefly describing your background? (including education/ work experience)	
How are APSF's selected by clients?	General reflections		NA	Do you have any general reflections on the purchasing of APSs?
	Company setting	APSs sold/ purchased by company	What types of APSs do your company purchase?	NA (Knowledge from internet)
		APSs sold/ purchased by individual	Which types of APSs are you involved in the purchasing of?	NA (Knowledge from internet)
	Purchasing process		How are these different services purchased? Could you please describe the processes? Is the process done in different steps?	How is the purchase being done? Is the process done in different steps?
		Organization of the purchase/ sale	How are the purchases organized? Are they centralized or decentralized?	Does your company have guidelines on how to sell?
		People involved	Who is involved in the purchases? Do these people have experience from APSFs?	Who are involved in the purchasing?
		Formalization	Do formal processes/ procedures or demands on documentation exist?	NA
What criteria are used for selection?	Selection criteria		What type of characteristics of the service supplier do you emphasize in the process of selecting a supplier?	What does the client emphasize in their purchase of APSs? Why do you lose projects to other APSFs?
		Overview	What are criteria you emphasize?	NA
		Importance		

## Appendices

Research question	Areas	Topic	Questions asked customers	Questions asked professionals
NA	Illustrative examples	Description	Could you describe the different purchases you have been involved in during the last year?	<p>Could you describe one project where the purchasing process was based on bidding?</p> <p>Could you describe one project where the purchasing process was based on relationships?</p> <p>Could you describe the relationships with the buyer? (what it consists of/ characteristics)</p> <p>Could you describe a situation where you lost the project? Describe the processes for each of these sales efforts.</p>
		Differences	What separated the different purchases you were involved in? On what dimensions were they different?	
		Processes	Could you describe the processes for each of the purchases? Did you do the selection in several rounds? Did the purchase involve several phases?	
		Criteria	How did you arrive at the selected suppliers? Were different criteria used across the different phases of the purchase? What separated the different suppliers?	<p>What did the client emphasize in each of the purchases?</p> <p>Why did you win the projects?</p> <p>Why did you lose the project?</p>
What is a client-professional relationship?	Client-professional relationships	Overview	Does your company have any relationships with any APS suppliers? Are these relationships contract based? Are they based on a frame agreements?	To what degree do you sell projects to past clients?
Characteristics/ concept		What do you mean by a relationship? Company relationship? Personal relationship? What does the relationship contain?	<p>What would you define a client-professional relationship to be?</p> <p>What characterizes a relationship?</p> <p>Is it a personal or a firm relationship?</p> <p>Can a personal relationship be transferred to a firm relationship?</p>	
Impact		To what degree are relationships important in the purchasing of APSs? Is it personal relationships or firm relationships that are emphasized? Why do you think relationships are important? What advantages do they give?	To what degree do you see relationships as important in the selection of APSFs? How are the personal/firm relationships weighted in the selection?	
What are contingencies of the impact?		Conditions	Under what conditions do you see relationships as particularly important?	
NA	Additions		Anything you would like to add to my questions?	

**APPENDIX 3: Within firm interviews**

Organi- zation	Inter- view	Level	Recent use of APS	Industry of supplier	Service purchased	Case	Processes described	Description of process
OrangeOrg	CFO	1	Limited	Generally on APS		NA	NA	General descriptions
	SVP Strategy	2	Somewhat limited	Investment banking	Full scale	A	Competitive value	More suppliers contacted. Selection based on ability to fill relatively loose need specification
					Smaller assign- ments	B	Direct knowled- ge based	Selection based on knowledge profile and knowledge of industry and geography
	Chief communication officer	1	Relatively extensive	Design services	Choice of design bureau	C	Competitive value	70 or 80 firms considered. 3 selected and sent detailed specification. Selection based on specialist competence.
Advertising				Choice of advertising agency	D	Competitive value to direct knowled- ge based	Three key Norwegian agencies selected and asked to present. One selected for trial project, but results were unimpressive. In turn, the best ad agency the CCO ever had experienced was contacted directly.	
PurpleOrg	EVP Human resources	1	Limited	Manage- ment consulting	Organi- zational develop- ment	E	Direct knowled- ge based	Start by using existing networks and relationships to generate ideas on whom to use.
	Head of legal department	2	Extensive	Legal services	Generally	F	Direct relational	Standing relationship with a leading law firm for 'generations'
					Specific difficult problems	G	Direct knowled- ge based	Difficult problem and a specialist was needed. Selection based on the market experience of the law department.
					General problems	H	Competitive cost	Where the knowled-ge needed was relatively generalitic - selection was based on competition on cost.
	EVP Corporate communication	1	Moderate	Communi- cation consulting	Specific need for communi- cation	I	Direct knowled- ge based	Selection based on past experience with a particular individual as a temporary worker in the firm.
Generally					J	Direct knowled- ge based/ competi- tive value	Selection based on experience and knowledge of people. Where more suppliers are relevant there was a competition	

## Appendices

Organization	Inter view	Level	Recent use of APS	Industry of supplier	Service purchased	Case	Process described	Description of process
GreenOrg	SVP Strategy	2	Moderate	Investment banking	Aquisitions	K	Direct relational	Relationship with key partner of bank across 3 CEOs. This partner is a dialog partner with TMT.
				Strategy consulting	Growth	L	Competitive value	Two top tier international companies were asked to present their approach. Different firm selected for different assignments.
					Portfolio management	M		
	SVP Corporate Communication	1	Extensive	Communication consulting	Annual report	N	Competitive cost - value	Called 4-5 of the best suppliers; sent them detailed need specification and invited them for presentations. The selection was based on the presentations
					Large media issue	O	Direct relational	The individual buyer had worked with the particular person in the past.
					Communication services	P	Direct knowledge based	Direct use where someone makes contact directly or there is a limited number of suppliers available. Processes start with call to people one knows to develop a short list.
	SVP Organizational & leadership development	2	Extensive	Organizational consulting	Leadership program	Q	Competitive value	The buyer talked to more suppliers, but quickly decided whom to use.
					Event	R	Competitive to direct	The firm discussed with 2-3 suppliers and then selected a firm that made a 'cold call' initiative.
				Management consulting	Corporate governance	S	Direct relational/ knowledge based	The project was an extension of a recently conducted strategy project.
				Recruiting	Executive recruiting services	T	Direct knowledge based	Used experience with suppliers for selection. Give assignments to different suppliers at a time to 'test' the market.

**APPENDIX 4: Across firm interviews**

Organization	Interview	Level	Recent use of APS	Industry of supplier	Service purchased	Case	Process described	Description of process
Company (I): Top 10 OSE company	Division VP of sales and marketing	3	Relatively extensive	Management consulting	Strategy, implementation/ change	1	Direct relational	Used two companies: One within strategy and one within implementation/change.
						2	Direct relational	Used individual ex-employees which were selected directly.
					Larger assignments	3	Competitive cost-value	Competition on larger assignments and those that are more content based and operative. Involved those usually used directly in addition to other firms.
				Legal services	General	4	Direct knowledge based	Limited number of companies were used depending of the competence needed.
Company (II): Top 10 OSE company	EVP Strategy	1	Extensive	APS	Core markets	NA	Direct relational	Established relations with small number of suppliers.
					New markets	NA	Direct knowledge based	New supplier were found based on networks of contacts.
					Specialist services	NA	Direct knowledge based	The firm knew a specialist and bought that firm/person directly.
					Bread and butter services	NA	Competitive cost	Competition based on price across relatively equally qualified suppliers.
					Other	NA	Competitive value	Competence and solution based competition.
				Investment banking	Specialist services	5	Direct knowledge based	Knew the market and found what was needed.
					Consultative investment services	6	Competitive value	Competence and solution based competition.
					Bread and butter services	7	Competitive cost	Competition based on price across relatively equally qualified suppliers.
				Mangement consulting	Strategy	8	Direct relational	Theu had a 'court supplier' (supplying 70% of the services) within strategy consulting.
					Strategy	9	Competitive cost-value	Evaluated others where the offer of the 'court supplier' was unacceptable.
					Specific areas	10	Competitive cost-value	Competitive approach in specific project where it was possible to specify the need.
				Legal services	Generally	11	Direct knowledge based	Used a direct approach where it was known what was needed. 3-4 law firms used regularly (parallél relationships).
Recruiting	Generally	12	Direct knowledge based	Chose among the top firms and used them until they were not able to deliver - then another firm was tested.				

Appendices

Organization	Interview	Level	Recent use of APS	Industry of supplier	Service purchased	Case	Process described	Description of process
Company (III): Top 10 OSE company	Business area responsible	3 (Key consulting buyer)	Relatively extensive	Management consulting	Generally	13	Pre-selection + direct relational	Used frame agreements to arrive at a partner firm based on a relatively vague mass request for proposal.
					Particular none-urgent tasks	14	Competitive value	2-3 companies asked to compete. The selection was done based on their ability to solve the task.
					Urgent problems	15	Direct knowledge based	Person/firm that had experience with the particular problem was contacted directly.
Top 50 OSE company	CFO & SVP IT	1	Moderate	IT-services	ERP system	16	Competitive value	Used an external consulting firm to evaluate around 6 companies and selected the best of them.
				Auditing	Annual auditing	17	Competitive cost-value	Went out to all the 'big four' accounting firms; 3 month process to arrive at the firm to be used.
				Legal services	Generally in the past	18	Direct relational	Used to have a lawyer on the board of the firm that channeled assignments to his firm.
					Generally recently	19	Direct knowledge based	Based on market knowledge of the buyer firm they buyer tried to find the supplier with the best knowledge.
				Management consulting	Buy out	20	Direct knowledge based	The service firm came to present and matched the need they had a couple of months later.
					Generally	21	Direct relational/ knowledge based	Long term relationship with people that had shown to be good through experience.
Top 50 OSE company	Purchasing/contract manager head office	NA ( Key role in contracts)	Low	Legal services	Generally	22	Direct relational	Legal services were outsourced to one supplier.
					Special assignments	23	Direct knowledge based	Other suppliers were used when there was a lack of particular knowledge or capacity.
Top 50 OSE company	SVP business development/Head of key Division	1	Moderate	Legal services	Generally	24	Pre-selection + direct knowledge based	The firm had connections to 5-6 legal services firms. Selection among these were based on market knowledge of their experience and knowledge and out past experience with the supplier
				Management consulting	Generally	25	Pre-selection + direct knowledge based	Select among pre-defined set of suppliers. Maybe two suppliers are asked for alternative perspectives, but a wide form of competition is never used.
				Investment banking	Generally	26	Pre-selection + direct knowledge based	

## Appendices

Organization	Inter-view	Level	Recent use of APS	Industry of supplier	Service purchased	Case	Process described	Description of process
Top 100 OSE company	SVP Business development	1	Moderate	Legal services	Generally	27	Pre-selection + direct knowledge based	Had 3 suppliers within different knowledge areas that had been used for years. Selection based on knowledge.
					Issues related to audit	28	Direct knowledge based	Special case where one legal firm was recommended by the auditor relative to a particular area.
				Management consulting	Strategy process	29	Direct knowledge based	Used a well known professor as participant in strategy processes.
Top 200 OSE company	Deputy CEO*	1	Moderate	Legal services	Competition Legal services	30	Direct knowledge based	A firm that made direct contact had a good idea, and was based on that idea.
					Generally	31	Direct relational	Had used the company for a number of years. The law firm had a partner from the firm on the buyer firm's board.
				Investment banking	Confidential*	32	Competitive value	Competition to arrive at two firms that were used for a particular assignment.
					Confidential*	33	Direct relational	Later the same firm was used again.
Internationally owned >\$5BN Company	SVP Organization and communication	1	Extensive	Legal services	Generally	34	Direct relational/ knowledge based	One supplier was used based on particular competence. Prices were renegotiated every year.
				Organizational consulting	Organizational development	35	Direct relational	Based on personal relationship. The buyer firm had been a past employer.
					Experience based learning	36	Direct knowledge based	Meeting based on referral from colleague; not long after a need for the particular service arose in the organization.
				Advertising	Generally	37	Direct relational	One supplier, renegotiate every year.
				Recruiting	Generally	38	Pre-selection + direct knowledge based	4 suppliers were prequalified and had a frame agreement for delivering recruiting services. These suppliers were used directly for different types of assignments. There was a stronger connection with one of the suppliers.
				Communication consulting	Generally	39	Direct relational	Had one firm that helped handle the company's external communication.

## Appendices

Organization	Inter-view	Level	Recent use of APS	Industry of supplier	Service purchased	Case	Process described	Description of process
Subsidiary of international \$2 billion company	Business development manager	2	Limited	Legal services	General	40	Frame agreement	The process was centralized and based on the selection of the global head office
					Country specific (e.g. taxes, regulation)	41	Direct knowledge based	Established agreement with a supplier that the CEO sees as adequate. Selected based on knowledge. Check-off the selection with headquarters.
				Investment banking	Generally	42	Competitive value	Suppliers were selected in three phases: (1) through a running dialogue with more suppliers. (2) through interesting and relevant cases, and (3) through their ability to get investors on board.
Private >\$1BN Company	CFO	1	Relatively extensive	Legal services	Generally	43	Direct relational	Had a fixed partner - and there needed to be a fixed reason not using that particular partner.
				Management consulting	Strategy process	44	Direct knowledge based	Found a person with the right competence recommended by someone the buyer firm trusted. The buyer got a good impression in the initial meetings and hired the firm.
					Small strategy issue	45	Competitive cost-value	Received presentations from more and decided on one person.
				Financial consulting	Transfer pricing	46	Competitive cost-value	Ended up with two and chose one of them.
				IT-consulting	Intranet	47	Competitive cost-value	Two suppliers that had worked for the company in the past were taken in and briefed about the project and its budget. Selection was based on interviews.

**APPENDIX 5: Service supplier interviews**

		Buyer purchasing process described										
		Pre-selection		Selection for assignment								
Firm	Description of firm	Industry of supplier	Sector	Interview	Competitive	Direct			Competitive			
						Direct	Long-term relationship	Relational experience based	Knowledge based	Value	Value and cost	Cost
1	Large multi-national	Management and IT consulting services	Primarily private	In charge of strategy practice in Norway	x	x	x	x	x	x	x	x
2	Large multi-national	Management consulting services	Primarily private	Principal/ senior manager Norway	x	x	x	x	x	x		
3	Large multi-national	Management consulting services	Primarily private	VP/ Nordic responsibilities	x	x						x
4	Large multi-national	Management consulting services	Primarily private	Partner, in charge of Norwegian operations	x	x				x	x	
5	Large multi-national	Strategy management consulting services	Primarily private	Partner with European responsibilities	x	x	x			x	x	
6	Large multi-national	Strategy & management consulting services	Primarily private	Partner	x	x				x	x	
7	Inter-national	Management consulting	Primarily private	Senior partner	x	x	x			x	x	x

Firm	Description of firm	Industry of supplier	Sector	Interview	Buyer purchasing process described									
					Pre-selection		Selection for assignment						Competitive	
					Competitive	Direct	Direct			Competitive				
							Long-term relationship	Experience based	Knowledge based	Value	Value and cost	Cost		
8	Large multi-national	Management & IT consulting services	Public & Private	VP/head of management consulting services Norway	x	x	x					x	x	
9	Large multi-national	Management consulting	Primarily private	Ex - senior consultant with extensive experience across consulting firms		x		x					x	
10	Large multi-national	Management & IT consulting services	Primarily private	Partner responsible sales to public sector			x					x	x	x
11	Nordic	Leadership development	Private	Managing director	x								x	
12	National	Strategy & management consulting	Private	Senior partner		x						x		
13	National	Strategy & management consulting	Private	Senior partner/CEO	x							x	x	x
14	Small national	Management consulting & leadership development	Private & public	Partner/ ex-managing director			x						x	
15	National	Management consulting & leadership development	Public & private	Managing director			x						x	

Buyer purchasing process described														
Firm	Description of firm	Industry of supplier	Sector	Interview	Pre-selection					Selection for assignment				
					Competitive		Direct			Competitive		Competitive		
					Competitive	Direct	Long-term relationship	Experience based	Knowledge based	Value	Value and cost	Value and cost	Cost	
16	National	Management consulting	Private & public	Ex-consultant in charge of proposal in case 2	x	x	x				x			
17	National	Management consulting	Public	CEO	x						x	x		
18	National	Management consulting	Public & private	Consultant in charge of proposal in case 2		x	x				x			
19	National	Management consulting	Private & public	CEO, founder	x	x	x	x			x	x		
20	National	Management consulting	Private & public	CEO, founder	x	x		x			x	x		
21	Large National	Law services	Privat	Partner/ managing director	x	x	x	x			x	x		x
22	Large National	Law services	Privat	Partner/managing director		x	x	x			x	x		x
23	Specialized National	Law services	Private & public	Partner	x	x		x			x			
24	Large international	Communication consulting services	Public & private	Partner /managing director Nordic	x	x	x	x			x	x		
25	Small local	PR/communication consulting	Private (& public)	Partner/managing director		x	x	x			x			

Firm	Description of firm	Industry of supplier	Sector	Interview	Buyer purchasing process described								
					Pre-selection		Selection for assignment						
					Competitive	Direct	Long-term relationship	Experience based	Knowledge based	Value	Value and cost	Cost	
26	Large international	Recruiting	Private & public	Partner/ CEO	x	x	x			x			
27	Local	Recruiting	Private	Partner/managing director/co-founder	x	x	x	x	x	x	x	x	x
28	Local	Recruiting	Private	Partner/co-founder	x	x	x	x	x	x	x		
29	Local	Recruiting	Private & public	Partner/co-founder	x	x	x			x			
30	Local	Recruiting	Private & public	Partner		x	x	x	x				

**APPENDIX 6: Contingencies in In-depth cases**

<i>Key characteristics</i>	<i>Case</i>	<i>1a</i>	<i>1b</i>	<i>2</i>	<i>3</i>
	<i>Organization</i>	<i>RedOrg</i>		<i>YellowOrg</i>	<i>Blueorg</i>
	<i>Type of firm</i>	Governmentally owned organization		Public directorate	Publicly traded company
	<i>Type of service</i>	Recruiting	IT-consulting	Management consulting	Management consulting
	<i>Particular need</i>	Specialist, top and middle	Internal firm IT-solution	Organizational development	Market/ customer analysis
	<i>Type of purchase</i>	Frame agreement	Assignment	Frame agreement	Assignment
	<i>Organizational contingencies</i>	<i>Size and formalization</i>	Large organization with extensive formalization.		Complex, but slim head office. Limited procedures.
<i>Purchasing strategy and policy</i>		Strong common guidelines. Use of parallel frame agreements with min. 3 suppliers in each area. Use of negotiations.		Limited	Competition across 3 suppliers for all purchases above 1MNOK, parallel frame agreements in frequently used areas (not for APSs).
<i>Role of purchasing function</i>		Moving towards becoming process guides. Strong position and professional. Centralized and standardized. Personalized knowledge management of documentation. Involved in processes.		Primarily as 'guards of regulations'.	Primarily involved in negotiations and contracts and as guardian of policies. Involved above 5MNOK.
<i>Policy implementation</i>		Lack of knowledge about the regulations. Limitations in implementation of the strategy and policies across organization		Limited policies	Internal auditors and control with purchases. Top managers in the 'line' organization allow exceptions from the 'purchasing regime'.
<i>Organizational politics</i>		Power struggle across purchasing/head office and divisions - relative to the role of the corporate purchasing function. Also political struggles across divisions and stakeholders within particular functions. Liason mechanisms (forums/ committees) in place.		Seemingly limited	Corporate and divisional control impacts the involvement of the purchasing 'police'.

	<i>Case</i>	<i>1a</i>	<i>1b</i>	<i>2</i>	<i>3</i>
	<b>Organization</b>	<b>RedOrg</b>		<b>YellowOrg</b>	<b>Blueorg</b>
<b>Group and individually based factors</b>	<i>Buying centre structure</i>	Interdisciplinary procurement teams		Representatives from relevant personell departments	Representatives from relevant functional areas
	<i>Participants of buying centre</i>	9 Persons: Corporate and divisional personell and purchasing. Top management as sactioners of decisions	2-4 Representatives from the IT-department and 1 person from the communication staff	One project manager, 2 persons from personell departments and 1 representative from purchasing	3 middle managers
	<i>Initiative owner</i>	HR manager and purchasing	Project owner in IT-department	Project manager	Business Unit Manager (level 3)
	<i>Initiative responsible</i>	CFO	CIO/CFO	CEO	Divisional management
	<i>Role of purchasing</i>	Process facilitator	Guardian of the law to participant in decision	Guardian of the law, observer & referent	Negotiations and contract (marginally involved)
	<i>Individual impact on decision</i>	Formal and informal (opinion makers). Large variance across individuals.		Limited, but preferecnec of CEO incorporated	Impact in final meeting by initiative owner
	<i>Buyer group knowledge</i>	High	High	High	High, but knowledge assymetry in methodology
	<i>Individual stakeholding</i>	Strong for initiative owner; but moderated through process	Strong for initiativ owner	Limited: equal participants in buyer group	Limited, but could have been covered up by rationalization
<b>Situational factors</b>	<i>Buyclass</i>	Slightly modified rebuy	Limitedly modified rebuy	Modified rebuy	Straight/modified rebuy
	<i>Risk</i>	Limited/moderate due to use of frame agreement	Low to moderate risk	Limited risk due to frame agreement	Low/moderate
	<i>Service characteristics</i>	Short time, limited complexity, relatively detailed need specification.	Very detailed need specification, very high complexity, considerable risk, time pressure.	Need specified, but extensive room for interpretation. Limited specification of amount of need. Limited time pressure.	Need extensively specified, complex analysis, but not complex project. Limited time pressure.

**APPENDIX 7: Contingencies in within firm interviews**

Organization	Interview	Industry of supplier	Service purchased	Case	Processes used	Contingency category	Key contingency mentioned relative to choice of purchasing process
Orange- Org	CFO	Generally	on APS	NA	NA	Situational	Standardized vs. customized solutions
	SVP Strategy	Investment banking	Full scale	A	Competitive value	Situational	Size of assignment
			Smaller assignments	B	Direct knowledge based	(a) Situational, (b) Market	(a) Size of assignment, (b) Knowledge differentiation across suppliers and important to get right type of knowledge.
	Chief communication officer	Design services	Choice of design bureau	C	Competitive value	(a) Organizational (b) Group/Individual, (c) situational	(a) Size of staff function - small/no staff likely that long term relationship with one supplier; (b) Knowledge of area; (c) Frequency/ One off or running form of service - running - might be good to have partners; embeddedness, time, strategic vs none-strategic
Advertising		Choice of advertising agency	D	Competitive value to direct knowledge based			
Purple- Org	EVP Human resources	Management consulting	Organizational development	E	Direct knowledge based	(a) Organizational, (b) Individual/group	(a) Level of decentralization in the buyer organization makes common corporate purchasing difficult, (b) buyer knowledge/network: the more knowledge the more ability to buy directly.
	Head of legal department	Legal services	Generally	F	Direct relationship	(a) Organizational, (b) Situational	(a) Size of staff functions; (b) Mechanic versus specialist law - search for 'good enough' (relationship) versus best (knowledge based) supplier; cost of new supplier
			Specific difficult problems	G	Direct knowledge based		
			General problems	H	Competitive cost	Organization	
	EVP Corporate communication	Communication consulting	Specific need for communication	I	Direct knowledge based	Situational	Embeddedness - person used to work in the organization before.
Generally			J	Direct knowledge based/ competitive value	Individual/group	Buyer knowledge of supplier market	

## Appendices

Organization	Interview	Industry of supplier	Service purchased	Case	Processes used	Contingency category	Key contingency mentioned relative to choice of purchasing process
Green- Org	SVP Strategy	Investment banking	Aquisitions	K	Direct relational	Situational	Path dependency; embeddedness, confidentiality; frequency (running theme vs project) and timing
		Strategy consulting	Growth	L	Competitive value	Situational	Need for external perspective/ independence vs need for embeddedness
	Portfolio management		M				
	SVP Corporate communication	Communication consulting	Annual report	N	Competitive cost - value	Organizational	Knowledge of buyer
			Large media issue	O	Direct relational	Situational	Embeddedness, timing (time of year), time; need for a quick start up, sensitivity/ confidentiality/ desire to limit exposure
			Generally on communication services	P	Direct knowledge based	(a) Market, (b) situation	(a) Type of knowledge needed - specialist versus generalist - determines number of available suppliers; (b) At some point it seems appropriate to change supplier. - tired of peoples way of acting.
	SVP Organizational & leadership development	Management/ organizational consulting	Leadership program	Q	Competitive value	NA	NA
			Event	R	Competitive to direct	Situational	Timing
		Strategy consulting	Corporate governance	S	Direct relational/ knowledge	Situational	Embeddedness in the problem, time
		Recruiting	Executive recruiting services	T	Direct relational to knowledge based	(a) Organizational, (b) situational	(a) Purchasing strategy, (b) Developed need, the existence of a relationship

**APPENDIX 8: Contingencies from across firm interviews**

Organization	Interview	Industry of supplier	Service purchased	Case	Processes used	Contingency category	Key contingency for choice of purchasing process
Company I: Top 10 OSE company	Division VP of sales and marketing	Management consulting	Strategy, implementation/change	1	Direct relational	Situational	Size of assignment; Embeddedness: have developed extensive knowledge of the firm (decision making/work processes) over time, Limitations in time, General versus specific consultancy needed (process versus content based) determines direct relational vs direct knowledge based selection; Strategic vs none-strategic: More strategic - more time used to develop need description for competition. Learning cost of new consultants.
				2	Direct relational		
			Larger assignments	3	Competitive cost-value		
		Legal services	General	4	Direct knowledge based	Organizational	Corporate selection
Company II: Top 10 OSE company	EVP Strategy	Investment banking	Specialist services	5	Direct knowledge based	Situational	Bread and butter versus strategic services (core vs non-core)
			Consultative investment services	6	Competitive value		
			Bread and butter services	7	Competitive cost		
		Management consulting	Strategy	8	Direct relational	Situational	Embeddedness, time, ease of defining the need/problem, in depth knowledge of the supplier
			Strategy	9	Competitive cost-value		Level of satisfaction relative to the offer from the relational supplier determines whether competition is initiated.
			Specific areas	10	Competitive cost-value	NA	NA
		Legal services	Generally	11	Direct knowledge based	Situational	Embeddedness and understanding of our risk preferences. Repetitive or one-off (frequency)
		Recruiting	Generally	12	Direct knowledge based/relationship	NA	Path dependency/satisfaction- keep firm if they are successful; change if in doubt.

## Appendices

Organization	Interview	Industry of supplier	Service purchased	Case	Processes used	Contingency category	Key contingency for choice of purchasing process
Company III: Top 10 OSE company	Business area responsible	Management consulting	Generally	13	Pre-selection + direct relational	Situational	General versus specific need determines the use of frame agreements
			Particular none-urgent tasks	14	Competitive value	Situational	Time: Speed was essential for the use of a direct approach.
			Urgent problems	15	Direct knowledge based		
Company IV: Top 50 OSE company	CFO & SVP IT	IT-services	ERP system	16	Competitive value	Situational	Size and specification based on meta-consultant - choice of competitive approach
		Auditing	Annual auditing	17	Competitive cost-value	Industry	Legitimacy: selection among 'big five'
		Legal services	Generally in the past	18	Direct relational	Situational	Path dependency relationship with firm represented by member of the board; Would have to be large services for a competition to be initiated.
			Generally recently	19	Direct knowledge based		
		Management consulting	Buy out	20	Direct knowledge based	Situational	Coincidence; Timing: presented some time before the need arose
Generally	21		Direct relational/knowledge based	Situational	Past satisfaction and time implies that direct is used		
Company V: Top 50 OSE company	Purchasing/contract manager head office	Legal services	Generally	22	Direct relational	Situational	Embeddedness: Aim to find a firm that knows everything about our company and is able to be proactive.
Special assignments	23	Direct knowledge based					
Company VI: Top 50 OSE company	SVP business development/Head of key Division	Legal services	Generally	24	Pre-selection + direct knowledge based/relational	(a) Industry, (b) Group/individual, & (c) Situational	(a) Market: Limited number of firms; Industry: Law is dependent on individuals as opposed to firms. Management consulting is a collection of individuals (regulated by a quality systems) and there exist more substitute systems; (b) knowledge/percpetion of buyers, (c) Embeddedness.
		Management consulting	Generally	25	Pre-selection + direct knowledge based/relational		
		Investment banking	Generally	26	(Pre-selection +) direct knowledge based	Group/individual	The existence of a peronal relationship

## Appendices

Organization	Interview	Industry of supplier	Service purchased	Case	Processes described	Contingency category	Key contingency for choice of purchasing process
Company VII: Top 100 OSE company	SVP Business development	Legal services	Generally	27	Pre-selection + direct knowledge based/ relational	Situational	Path dependency - the relationship has grown. Embeddedness: Do not have to explain who you are. Ease if working together. Past satisfaction - pro-active approach by supplier. Size of project: smaller project makes ease of selection important.
			Issue related to audit	28	Direct knowledge based/ relational		Embeddedness: repetition of same thing multiple times - integration of subunits.
		Management consulting	Strategy process	29	Direct knowledge based	Situational	Embeddedness: they know us and we know them. Size of assignment: Select directly in the case of smaller assignments.
Company VIII: Top 200 OSE company	Deputy CEO	Legal services	Competition legal services	30	Direct knowledge based	Situational	Critical issue: Best competence needed.
			Generally	31	Direct relational	(a) Situational & (b) Organizational	(a) Ease, frequency; path dependency: have used the firm for years and years - the existence of a relationship; embeddedness; (b) Limited legal staff
		Investment banking	Confidential	32	Competitive value	Situational	Frequency (one-off vs. repetitive) and need for embeddedness (low vs higher)
			Confidential	33	Direct relational		
Internationally owned >\$5BN Company	SVP Organization and communication	Legal services	Generally	34	Direct relational/ knowledge based	Situational	Specialist versus generalist; Embeddedness: knows the buyer organization,
		Organizational consulting	Organizational development	35	Direct relational	Situational	Embeddedness: the knowledge, strategic understanding, past results and the fact that they are 'living the firm'.
			Experience based learning	36	Direct knowledge based	Situational	Timing - just seen the person at a presentation some weeks earlier.
		Advertising	Generally	37	Direct relational	NA	NA
		Recruiting	Generally	38	Pre-selection + direct knowledge based	NA	NA
		Communication consulting	Generally	39	Direct relational	Situational	Embeddedness: represent the firm externally

## Appendices

Organization	Interview	Industry of supplier	Service purchased	Case	Processes described	Contingency category	Key contingency for choice of purchasing process
Subsidiary of international \$2 billion company	Business development manager	Legal services	General	40	Frame agreement	Organization	Global organization determines.
			Country specific (e.g. taxes, regulation)	41	Direct knowledge based/relational	Situational	Embeddedness: understanding of firm; Standardized vs. non-standardized (specialist) services - capacity becomes an issue in the case of specialist services.
		Investment banking	Generally	42	Competitive value	Situational	Existence of relationship: past success in previous phase of selection
Private >\$1BN Company	CFO	Legal services	Generally	43	Direct relational	Situational	Size of purchase - for a larger purchases more likely to arrange a bidding. Legitimacy: no internal questions asked if the particular firm is used; past satisfaction - stick to the same firm. Embeddedness: they understand our problems - have a broad specter of services. Frequency, importance
		Management consulting	Strategy process	44	Direct knowledge based	Situational	Strategic vs. less strategic: Selected desired person directly for the strategy process project. Path dependency: existence of relationship.
			Small strategy issue	45	Competitive cost-value		
		Financial consulting	Transfer pricing	46	Competitive cost-value	NA	NA
IT-consulting	Intranet	47	Competitive cost-value	Situational	Embeddedness: Those that presented came from company that had worked for buyer in the past. Time: wanted to start quickly. Cost of initiation: Time of project owner and the company in general. Past satisfaction.		

## **APPENDIX 9: Inter-rater reliability of selection criteria categories**

Based on the criteria descriptions, an independent coder was hired to code arbitrarily selected documents consisting of both transcriptions of notes from the observations of meetings from in-depth cases and transcription of recorded interviews. This effort was done to control the reliability of the research presented above. The test coder was a Master of Science student with no research experience and no experience in working with qualitative analyses. The student had been familiarized with the concept of PSFs and professional service value creation through a course on the topic. Efforts were made not to influence the coder in terms of how to code and the student was asked to code purchasing criteria based on whole documents consisting of all research topics – not only concerning the criteria. A very brief meeting was held with the student and the written explanation of the different codes handed over as a guideline. The intention was to keep the coder as uninvolved in the project as possible.

The coding was done by the test coder through the use of a non-coded version of the seven documents in Atlas.ti. These documents were taken from the early as well as the later phases of the data collection process. Before running the analyses, the coding was briefly reviewed and the student's coding of my own comments to the interviews were taken out. Also, coding of what was going on in the PSFs, which was unrelated to purchasing criteria, was eliminated. In turn, the coding of the independent coder was compared to my own codes using Atlas.ti and the Coding Analysis Toolkit from the University of Pittsburgh.

The results, which are shown in Table A9-1, show that the inter-rater reliability at the category level of selection criteria measured as Cohen's kappa including overlap was 0.52. This suggests that there is a moderate or fair agreement across the two coders (Landis & Koch, 1977; Fleiss, 1981). Thus, while the result of this analysis is not excellent or substantial, which would be the case if the Kappa was above 0.6 - as would be preferred - the exploratory nature and the context of the coding, the inexperience of the test coder both in the area of the research and as a coder of qualitative research, as well as the set-up of the independence of the coder suggests that the reliability is satisfactory. Also, the lower coding intensity of the inexperienced coder has an extensive impact on the Kappa. For many of the concepts with low Kappa's, 70-100% of those statements that were coded by the test coder overlap with my coding. In fact, if one were to control for the lower level of coding intensity by the novice coder, there was an overlap of

statements including partial overlap of 80%, which suggests that the coding scheme is adequate in the case of exploratory research.

*Table A9-1: Code comparison*

Code	Test coder	Original coder	Exact Match	Overlap	Kappa	Kappa (incl. overlap)
APPROACH	6	11	2	2	0.13	0.27
BUYER KNOWS SUPPLIER	14	11	6	3	0.32	0.47
CAPACITY	11	18	10	1	0.53	0.58
CHEMISTRY (INDIVIDUAL)	33	22	14	4	0.34	0.44
CLIENT ORIENTATION	1	5	1	0	0.20	0.20
EXPERIENCE	12	24	8	3	0.29	0.39
FIT (ORGANIZATIONAL)	2	5	2	0	0.40	0.40
KNOWLEDGE	26	23	16	2	0.48	0.55
KNOWLEDGE INDUSTRY	9	12	6	2	0.40	0.53
KNOWLEDGE TOPIC/AREA	39	52	26	5	0.40	0.48
KNOWLEDGE/ UNDERSTANDING BUYER	9	8	3	2	0.21	0.36
METHODOLOGY	12	15	10	1	0.59	0.65
OWN PAST EXPERIENCE	12	24	10	2	0.38	0.50
PEOPLE INDIVIDUALS	11	14	10	0	0.67	0.67
PEOPLE TEAM	2	4	2	0	0.50	0.50
PRESENTATION	1	2	1	0	0.50	0.50
PRICE	44	49	41	4	0.79	0.87
PROPOSAL	5	3	3	0	0.60	0.60
REFERENCES	17	18	12	1	0.52	0.57
REPUTATION	23	15	13	0	0.52	0.52
SUPPLIER KNOWS BUYER	21	19	14	3	0.54	0.65
TRUST	21	20	16	2	0.64	0.72
UNDERSTANDING OF TASK	12	14	7	3	0.37	0.53
<b>Totals</b>	<b>343</b>	<b>388</b>	<b>233</b>	<b>40</b>	<b>0.45</b>	<b>0.52</b>

To learn from the inter-rater reliability analysis I compared the codes of the test coder to the concept descriptions in the text the coder had used to get

## Appendices

familiarized with the codes. The objective of this review was to look at systematic differences across the presented codes and way in which the test coder had used the codes. Based on this review it was evident that the test coder had not fully understood some of the codes – which is also visible in the levels of the Kappa. Thus, the description of the codes was reviewed to ensure increased clarity for future researchers.

## Appendices

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