Customizing business-to-business (B2B) professional services: The role of intellectual capital and internal social capital

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A B S T R A C T

Business-to-business (B2B) professional service firms often develop highly customized offerings for their customers. Customizing B2B professional services is a knowledge intensive process that requires the coordinated efforts of individuals with specialized knowledge and skills. Drawing on customization and social capital theory, we develop and test an intellectual capital (IC) model of customizing B2B professional services that rests on two foundational premises. First, three different forms IC, that is, employees’ knowledge of customers, employees’ technical knowledge and abilities, and organizational creativity, make firms more effective at customizing B2B professional services. Second, internal social capital (ISC) is a precursor to the intellectual capital that enables firms to effectively produce customized B2B professional services. Analyses of data from key informants of 161 marketing research firms support our theses.

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1. Introduction

Business-to-business (B2B) professional services are growing rapidly (La, Patterson, & Styles, 2009). Despite its growth, research on B2B professional services is limited. Extant research suggests that B2B professional services are characterized by complexity (de Brentani & Ragot, 1996), knowledge intensity (Wang & Ma, 2014), and the importance of specialized skills and knowledge (La et al., 2009), which has contributed to customization becoming central to value creation and a major concern of CEOs (BizEd, 2016; Chan, Yin, & Lam, 2010). Customized professional services (1) are highly tailored for one, specific customer, (2) involve many creative options, (3) address numerous individualized customer requirements, and (4) are produced in highly context-specific, environments (Burke, Rangaswamy, Wind, & Eliahsberg, 1990). Many marketing research firms—the context of our study—have long produced customized marketing research offerings that are tailored to the specific knowledge needs of individual clients (Malhotra, 1996). However, no research specifically focuses on the customization of B2B professional services.

Customizing B2B professional services involves braiding together many tasks that (1) are knowledge intensive, (2) require the coordinated efforts of individuals with specialized knowledge and skills, (3) are systemic (elements of the offerings depend on each other for development and performance), and (4) have emergent properties during development (unpredictable and unexpected events and interactions often occur). When B2B professional services firms produce high quality, customized offerings, such offerings can significantly impact the overall effectiveness and/or efficiency of the firms’ customers. Consider, for example, marketing research firms. The client of a research firm may successfully develop, launch, and execute a marketing strategy when it is based on a well-done, customized, estimation study of a new product’s market potential. In contrast, the client’s marketing strategy may fail when it is based on a poorly-done study. Therefore, marketing research firms that are more effective in customizing market offerings to clients’ specific needs may have marketplace positions of competitive advantage (Hunt, 2000; Hunt, Morgan, & Morgan, 1995).

Most customization research focuses on the mass customization of B2C offerings (e.g., Gilmore & Pine, 1997; Liechty, Rangaswamy, & Cohen, 2001; Wind & Rangaswamy, 2001). In addition, while customization has been addressed in the contexts of co-creation of value (Kohtamäki, Partanen, & Möller, 2013), solution provision (Töllner, Blut, & Holzmüller, 2011), and problem solving (Aarikka-Stenroos & Jaakkola, 2012), no research explores what makes firms better at customization. Therefore, our research investigates why some B2B professional services firms are better than others in customization. Specifically, because customizing B2B market offerings is knowledge intensive and requires the coordinated efforts of individuals with specialized knowledge and skills, our research proposes that a model based on social capital theory can explain the differential effectiveness of firms in customizing market offerings.
The fundamental thesis of social capital theory is that social capital is a precursor to intellectual capital, which in turn, leads to competitive advantage (Nahapiet & Ghoshal, 1998). Accordingly, drawing on intellectual capital (hereafter, “IC”) research (e.g., Baxter & Matear, 2004) and social capital research (Hughes & Perrons, 2011; Wu, Lii, & Wang, 2015), we propose and test an IC model of customizing B2B professional services. Furthermore, we identify three distinct forms of IC that are critical to customizing B2B market offerings: employees' knowledge of customers, employees' technical knowledge and abilities, and organizational creativity. Our model rests on two foundational premises. First, the three different forms of IC that we identify are important for making firms more effective at customizing B2B professional services. Second, internal social capital, defined as the collection of actual and potential resources embedded within, available through, and derived from the firm’s internal network of relationships, is a precursor to IC. Therefore, our research provides insights into how B2B professional services firms can become more effective at customization.

We first discuss the foundations of our model and develop specific hypotheses. Second, we test the model using data from key informants of 161 marketing research firms. We then discuss our study's contributions to B2B professional services marketing and its implications for theory and practice.

2. Model development

Our model, shown in Fig. 1, has three categories of concepts: (1) customization, (2) intellectual capital, and (3) internal social capital. We briefly overview each category and then propose formal hypotheses.

2.1. Customization

The search for competitive advantage drives B2B professional services firms to effectively customize their offerings. Although the concept of customization actually began with B2B products (Shapiro, 1977), most customization research is in the B2C context. As marketing is evolving toward a dominant logic in which knowledge and customization are considered to be fundamental sources of competitive advantage (Vargo & Lusch, 2004), the pursuit of effective customization can provide competitive advantages in B2B professional services.

2.2. Intellectual capital

"Intellectual capital” refers to “the knowledge and knowing capability of a social collectivity, such as an organization, intellectual community, or professional practice” (Nahapiet & Ghoshal, 1998, p.245) and benefits firms by positively influencing firm performance (Baxter & Matear, 2004). Rather than being unidimensional, intellectual capital research suggests that there are numerous forms of intellectual capital (Reed, Lubatkin, & Srinivasan, 2006). The customization and B2B marketing literatures lead us to propose three forms of intellectual capital that, we argue, can help firms in positively influencing their customization outcomes: (1) employees' knowledge of customers, (2) employees' technical knowledge and abilities, and (3) organizational creativity.

2.2.1. Employees’ knowledge of customers

Customer knowledge, that is, knowing customer needs, wants, and preferences, is essential for adopting customization as a business strategy (Tollin, 2002). In B2B markets, detailed customer knowledge is often considered a prerequisite to customizing market offerings (Stump, Athaide, & Joshi, 2002). Intimate knowledge of client firms can provide suppliers with opportunities to develop market offerings that better match customers' requirements. Therefore:

Hypothesis 1. There is a positive relationship between a firm's employees' knowledge of customers and its effective customization of offerings.

2.2.2. Employees’ technical knowledge and abilities

Effectively customizing a B2B firm’s professional services' offerings requires employees with specific knowledge and skills related to producing the offerings. Because B2B offerings are often systemic (elements of the offerings depend on each other for development and performance) and unpredictable and unexpected events often occur during the development process, employees’ technical knowledge and abilities assume critical proportions. For marketing research firms, Song and Parry’s (1997a, 1997b) work suggests that customizing research requires employees who have a technical proficiency in research methods. That is, to excel at customizing research offerings, marketing research firms’ employees must know how to create research designs, as well as how to gather, analyze, and interpret the meaning of data. Therefore:

Hypothesis 2. There is a positive relationship between a firm’s employees’ technical knowledge and abilities and its effective customization of offerings.

2.2.3. Organizational creativity

Customization requires innovative organizations, which requires organizations to be (1) flexible in responding to customers' needs for individualized market offerings (Kotha, 1995) and (2) effective problem solvers (Spring & Dalrymple, 2000). Indeed, foundational knowledge resources have to come together in novel or creative assemblages to meet client firms’ particular requirements. “In social science research, the most widely used definition of creativity focuses on the meaningful novelty of some output (e.g., a painting, a chemical compound) relative to conventional practice in the domain to which it belongs (e.g., abstract art, adhesives)” (Andrews & Smith, 1996, p. 175). Accordingly, organizational creativity plays a major role in solving problems associated with customization. Therefore:

Hypothesis 3. There is a positive relationship between a firm’s organizational creativity and its effective customization of offerings.

2.3. Internal social capital

Both internal relations (internal social capital) and external relations (external social capital) can be beneficial to the firm (Adler & Kwon, 2002). Our focus is on internal social capital (ISC), which may be defined as the collection of actual and potential resources embedded within, available through, and derived from the internal network of relationships within the firm (Nahapiet & Ghoshal, 1998). Good communications and strong relationships among employees have long been acknowledged to be critical when B2B offerings are tailored to customer needs (Levitt, 1981).

For collaboration, and therefore effective customization, to take place, firms need a set of social resources embedded in internal relations. Consistent with Nahapiet and Ghoshal (1998) and Nielsen and Nielsen (2009), we argue that ISC influences positively the three distinct forms of IC (employees' knowledge of customers, employees' technical knowledge and abilities, and organizational creativity) that are critical to customizing B2B professional services. Furthermore, internal social capital may be viewed as a multidimensional construct. Social capital has structural, relational, and cognitive dimensions (Nahapiet & Ghoshal, 1998). Therefore, we investigate the interrelationships among the different variables belonging to the structural, relational, and cognitive dimensions.

2.3.1. Structural dimension

Nahapiet and Ghoshal (1998) note that structural embeddedness concerns the properties of the social system, the entire network of relations, and the patterns of individuals' connections. Therefore, the structural dimension of social capital involves the extent to which in an
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