

Organization of the Purchasing Function for Innovation

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Abstract : Various prominent scholars and substantial practitioner-oriented literature on innovation orientation have shown positive effects on firm performance. There is a myriad of factors that influence and enhance innovation but it has been found in the literature that new product innovations accounted for an average of 14 percent of sales revenues for all firms. If there is one thing that has changed in innovation management during the last decade, it is the growing reliance on external partners. As a consequence, a new task for purchasing arises, as firms need to understand which suppliers actually do have high potential contributing to the innovativeness of the firm and which do not. Purchasing function in an organization is extremely important as it deals on an average of 50% or more of a firm's expenditures. In the nineties the purchasing department was largely seen as a transaction-oriented, clerical function but today purchasing integration provides a formal interface mechanism between purchasing and other firm functions that services other functions within the company. Purchasing function has to be organized differently to enable firm innovation potential. However, innovations are inherently risky. There are behavioral risk (that some partner will take advantage of the other party), technological risk in terms of complexity of products and processes of manufacturing and incoming materials and finally market risks, which in fact judge the value of the innovation. These risks are investigated in this work since it has been found in the literature that the higher the technological risk, higher will be the centralization of the purchasing function as an interface with other supply chain members. Most researches on organization of purchasing function were done by case study analysis of innovative firms. This work actually tends to prove or discard results found in the literature based on case study method. A large data set of 1493 companies, from 25 countries collected in the GMRG 4 survey served as a basis for analysis.

Keywords : purchasing function organization, innovation, technological risk, GMRG 4 survey

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