Journal of Business Research xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

Innovation in service ecosystems—Breaking, making, and maintaining institutionalized rules of resource integration

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ARTICLE INFO

Article history:
Received 1 August 2015
Received in revised form 1 January 2016
Accepted 1 February 2016
Available online xxxx

Keywords:
Innovation
Service ecosystems
Resource integration
Institutions
Service-dominant logic
Multiple case study

ABSTRACT

Drawing on service-dominant logic and institutional theory, this paper examines innovation as a process that unfolds through changes in the institutional arrangements that govern resource integration practices in service ecosystems. Four cases are used to illustrate the interdependent patterns of breaking, making and maintaining the institutionalized rules of resource integration occurring on multiple levels of institutional context. Such institutional work allows actors to cocreate value in novel and useful ways by a) including new actors, b) redefining roles of involved actors and c) reframing resources within service ecosystems. Our findings show that while the efforts of breaking and making the institutionalized rules are required for such changes to occur, at the same time, institutional maintenance is also important for these changes to institutionalize, that is, to become an integral part of the institutional structure coordinating value cocreation.

1. Introduction

Traditionally, innovation is often seen as the outcome of the work by a lone genius or as the output from a new service or product development process. Today, the more relational and collaborative nature of innovation is widely recognized (Chesbrough, 2006; Kindström, Kowalkowski, & Sandberg, 2013; Rusanen, Halinen-Kaila, & Jaakkola, 2014). "No longer are innovations (and even the ideas from which they emerge) developed from within the confines of an organization; instead, they evolve from the joint action of a network of actors" (Lusch & Nambisan, 2015, p. 155). Innovation is understood as a process between different actors exchanging and combining various resources in new ways (Perks, Gruber, & Edvardsson, 2012; Trott & Hartmann, 2009). The aim of this paper is to further develop this multi-actor process view on innovation by drawing on service-dominant (S-D) logic and the concept of institutional work.

Service-dominant (S-D) logic suggests that innovation denotes a novel and better way for actors to cocreate value through resource integration (Lusch & Nambisan, 2015; Vargo, Wieland, & Akaka, 2015). Innovation is, hence, seen as a process of reconfiguring value constellations (Normann & Ramírez, 1993) or service ecosystems (Lusch & Vargo, 2014) that extends beyond developing new outputs (e.g., tangible goods) exchanged in dyadic relationships (Michel, Brown, & Gallan, 2008) to wider activities aimed at changing the value cocreation practices among multiple actors (Vargo et al., 2015). AirBnB is a recent example showing how innovation is strongly linked to the reconfiguration of existing resources and their integration practices within a broader service ecosystem. By connecting private persons' spare living space with travelers looking for temporary accommodation, AirBnB has drastically changed the number and types of actors involved in lodging, as well as their roles and the resources integrated within the service ecosystem (from hotels to private homes). Similar systems-level reconfigurations are also visible among more traditional manufacturers. For example, Ericsson has reconfigured existing resources and redefined its role, so that it does not only sell equipment, but performs broader broadcasting activities for television networks.

A service ecosystem is a complex, self-adjusting system of resource-integrating actors connected by shared institutional arrangements and mutual value creation (Vargo & Lusch, 2016). S-D logic and its service ecosystems perspective on innovation, therefore, highlight the role of institutions – enduring rules, norms, values and beliefs – and institutional arrangements – sets of interrelated institutions – in providing "the rules of the game" (North, 1990) that guide how resources are integrated. Innovation as a process of changing value cocreation practices

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http://dx.doi.org/10.1016/j.jbusres.2016.02.029
0148-2963/

entails reconfiguring these institutionalized rules in service ecosystems (Vargo et al., 2015). However, previous research has not elaborated in detail how actors within service ecosystems in practice are able to change the institutionalized rules of resource integration on multiple levels of institutional context and how the institutional reconfigurations manifest themselves within service ecosystems.

In order to shed more light on these processes, the paper draws on the concept of institutional work (Jarzabkowski, Matthiesen, & Van de Ven, 2009; Lawrence, Suddaby, & Leca, 2009) to examine how innovation in service ecosystems unfolds through multiple actors' efforts to break, make and maintain the institutionalized rules of resource integration. Four theoretically selected cases are used to contextualize and illustrate the interdependent nature of these patterns occurring on multiple levels of institutional context. The findings of the paper show that the resulting reconfigurations within service ecosystems entail, for example, a) including new actors, b) redefining roles of involved actors and c) reframing resources. The findings also highlight the importance of institutional maintenance in innovation and the importance of balancing the three forms of institutional work; breaking, making and maintaining institutionalized rules.

2. The service-based view on innovation

A wide array of innovation research stems from Schumpeter's (1934) seminal work emphasizing the solitary role of the entrepreneur and the firm. However, the view of multiple actors collaborating by means of integrating and reconfiguring resources is increasingly being highlighted in the literature on open innovation (e.g., Chesbrough, 2006) and user innovation (e.g. Bogers, Afuah, & Bastian, 2010; von Hippel, 2005). To summarize, previous research has analyzed the benefits and dynamics of integrating external actors and resources for organizations to develop a specific offering, but mainly used a rather firm- or output-centric view of innovation.

To overcome this emphasis, recent research calls for a broader, service-based view on innovation (see e.g., Ostrom, Parasuraman, Bowen, Patrício, & Voss, 2015; Rubalcaba, Michel, Sundbo, Brown, & Reynoso, 2012). Literature on service innovation has grown considerably over the last thirty years and can be categorized into three research streams. The first, assimilation, suggests that the traditional view works for both products and services (Gallouj & Savona, 2009), and often focuses on offerings and production processes of technological or financial innovations, as the unit of analysis (Drejer, 2004; Toivonen & Tuominen, 2009). The second stream, demarcation, assumes significant differences between product- and service-based views for understanding innovation and thus emphasizes the need for new theories and models (e.g. Berry, Shankar, & Parish, 2006; Edvardsson & Olsson, 1996; Fitzsimmons & Fitzsimmons, 2000). This strong division has been criticized and a third, transcending approach is called for (see e.g., Gallouj & Djellal, 2010; Gallouj & Savona, 2009; Lusch & Nambisan, 2015), often labeled as a synthesis view of innovation (Gallouj & Savona, 2009) that uses transcending service-based view to understand all forms and types of innovation across industries and sectors.

In line with the synthesis view, S-D logic, with its service ecosystems perspective, advocates a more unified view on innovation (Vargo et al., 2015). This systemic understanding of value creation zooms out from the dyadic and output-centric view on exchange and proposes that *service* – the application of specialized resources for the benefit of other actors – is the basis of all exchange (Vargo & Lusch, 2004). Thereby, S-D logic removes the distinction between "products" and "services" as well as "producers" and "consumers" of value, arguing that all actors are resource integrators that have both the roles of service provider and beneficiary in service-for-service exchange (Vargo & Lusch, 2011). These service exchanges connect actors into service ecosystems in which they cocreate value for themselves and others (Vargo & Lusch, 2016).

When viewed via this systemic, dynamic, and multi-actor perspective, the fallacy of the linear and sequential value creation conceptualization that characterizes much of the assimilation and demarcation streams is revealed (Lusch & Vargo, 2014). Also, the nature of innovation changes from novel outputs (Michel et al., 2008; Rubalcaba et al., 2012) to the process of deinstitutionalizing and reinstitutionalizing value cocreation practices (Vargo et al., 2015). Hence, through this perspective, innovation is about setting new rules of integrating and mobilizing resources and actors within service ecosystems (cf. Normann, 2001).

2.1. Innovation as reconfiguring the institutional structure in service ecosystems

The emerging service ecosystems perspective (Lusch & Vargo, 2014; Vargo & Lusch, 2011) conceives society as a web of interrelated resource-integrating and service-exchanging actors cocreating value in systems ranging from small systems, e.g., households, to large systems, e.g., nations. Institutions and institutional arrangements are seen as the constitutive elements of such service ecosystems (Vargo & Lusch, 2016). According to Scott (2014) institutions are multifaceted, durable social structures having both symbolic and material elements. They consist of laws, norms, values and moral codes that define appropriate behavior among actors, as well as cultural beliefs and cognitive models, frames and schemas that encapsulate the taken-for-granted assumptions and beliefs fundamental to guiding social action in different situations (Scott, 2014; Thornton, Ocasio, & Lounsbury, 2012). Accordingly, they are closely related to the notion of the formation and routinization of social "rules of the game" (see e.g., North, 1990) and building mutual trust among individuals.

As value cocreation requires processes and forms of collaboration that need to be shared and regulated, institutions act as a coordinating mechanism within service ecosystems (Vargo & Lusch, 2016). In a nutshell, institutions both enable and constrain value cocreation by guiding resource integration and service exchange among actors (Edvardsson, Kleinaltenkamp, Tronvoll, McHugh, & Windahl, 2014; Lusch & Vargo, 2014; Vargo & Akaka, 2012). Hence, innovation in service ecosystems entails reconfiguring the institutional structure by changing the institutionalized rules of resource integration.

To understand the nature of the institutional structure in service ecosystems, it is important to emphasize that service ecosystems are nested and loosely coupled by nature. This means that a system that can be considered as entire at one level is contained at another level (cf. Ostrom, 2005; Vargo & Lusch, 2016). Hence, service ecosystems are conceptualized as having micro (e.g., households, organizations), meso (e.g., industries and brand communities) and macro (e.g., nations, cultures, and global markets) levels of context that frame resource integration, service exchange and value cocreation (Chandler & Vargo, 2011). Since service ecosystems are composed of multiple, nested levels of contexts, also institutional structure exists on multiple, nested and intertwined levels (Akaka, Vargo, & Lusch, 2013). This means that a micro level institutional arrangement, such as a company culture, also simultaneously reflects both a meso level institutional context, e.g., industrial norms, and a macro level institutional context, e.g., national culture and values. The interconnectedness of the different levels and the respective institutional arrangements bring forth situations in which actors are guided by incompatible prescriptions for action (cf. Thornton et al., 2012). Though causing conflicts and challenges in value cocreation, such institutional complexity, inherent in service ecosystems, is also a prerequisite for the actors' ability to be creative (Koskela-Huotari and Vargo, 2016) and to reconfigure the institutional structure in service ecosystems.

2.2. Breaking, making, and maintaining rules of resource integration

Similarly to Vargo et al. (2015), this paper draws on the concept of institutional work (Lawrence & Suddaby, 2006; Lawrence et al., 2009) when examining innovation from the service ecosystems perspective. The concept of institutional work refers to "the purposive action of

Please cite this article as: Koskela-Huotari, K., et al., Innovation in service ecosystems—Breaking, making, and maintaining institutionalized rules of resource integration, *Journal of Business Research* (2016), http://dx.doi.org/10.1016/j.jbusres.2016.02.029