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Making incremental innovation tradable in industrial service settings

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ABSTRACT

In many knowledge-intensive business-to-business settings the locus of interaction has shifted from stable, discrete, and articulated products and services to the exchange of somewhat nebulous capacities of problem-solving, innovation and R&D services. In these exchanges, tensions and conflicts between actors can arise in seeking clarity as to what is being exchanged while attempting to keep the interaction open for future adjustments to the scope and content of the exchange. We combine a longitudinal case study of a chemical services firm with Galison's (1999) concept of a trading zone to assess how actors offer, value and exchange incremental innovation. Focusing on the contentious nature of innovation processes, examine how incremental innovation is formatted as a tradable service and argue that trading zones complement relational processes and contractual arrangements by allowing actors to preserve their own logics and expertise pertaining to innovation.

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1. Introduction

How do organizations buy and sell incremental innovation as a business service? Given the increase in knowledge-intensive business services such as R&D or consultancy services (Aarikka-Stenroos & Jaakkola, 2012), this question is timely and under-researched. Actors' trading of innovation as a service can be particularly challenging given the often ambiguous and uncertain nature of the problems it aims to solve, actors' different resources and expertise, and their often conflicting interests in its production, exchange and use (Song, Dyer, & Thieme, 2006). The exchange of incremental innovation services requires buyers and sellers to agree on the service's qualities, value, and the terms and conditions of its exchange in the context of present and future unknowns (Araujo & Spring, 2006). Debates around how to 'contract for innovation' may serve as an indication of just how complex and contentious this formatting in the face of continuous uncertainty at the buyer/seller interface can be (Gilson, Sabel, & Scott, 2009).

Offering innovation as a service requires a complex exchange, combining goods and services with commitments to making adaptations of these later and as required (Möller, Rajala, & Westerlund, 2008). Relationships between buyers and sellers are vital as the service is co-developed in the interaction by combining buyers' and sellers' resources (Kohtamäki, Partanen, & Möller, 2013; Zhang, Baxter, & Glynn, 2013). Developing an innovative capacity as a business service also requires strong internal collaboration as this

capacity relies on the existence of specialist resources within the supplier firm that can be made available and recombined as needed, for instance between R&D's technical expertise and marketing's customer insights (Foss, Laursen, & Pedersen, 2011; Kowalkowski, Kindström, Alejandro, Brege, & Biggemann, 2012; Song et al., 2006).

The services and solutions marketing literature provides important leads on how actors prepare and deploy knowledge-intensive services, but places much less emphasis on the exchanges themselves and on the market arrangements that support the exchanges (Kindström, Kowalkowski, & Sandberg, 2013; Kohtamäki et al., 2013; Song & Thieme, 2009; Tuli, Kohli, & Bharadwaj, 2007). The service-dominant logic (SDL) makes a strong case for the co-development of offers and the co-creation of value, but only tentatively addresses the question of how exchanges play into co-creation (Cova & Salle, 2008; Vargo & Lusch, 2011). Innovation literature informs us that innovation needs to be open, adaptive, multi-agent, experimental and processual (Pires, Dean, & Rehman, forthcoming; Von Hippel, 1976). This research also points out that innovation processes are often pressurized and conflict-laden contexts, which likely exacerbates the problems associated with buying and selling them as business services (Song et al., 2006).

In order to address this gap around exchanges in our knowledge of service marketing and purchasing, we report on a longitudinal case study of suppliers and buyers of chemical services in the petroleum industry. We define incremental innovation as a service where producers draw upon established resources to work with users in identifying new products or services or adaptations of existing products or services in order to solve their problems (Gallouj & Weinstein, 1997; Song & Thieme, 2009). We assess how the companies develop, exchange and deploy innovation as a business service across heterogeneous projects and through different interactions internally and across their firms'

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boundaries. Following an abductive approach in combining our case study material and extant theory, we argue that the concept of ‘trading zone’ (Galison, 1999) offers a potent basis for marketing and management researchers for assessing innovation as distributed and exchanged problem-solving within and across firms’ boundaries.

According to Galison (1999), local zones of interaction, or ‘trading zones’, support exchanges between members of different cultures or specialisms—in Galison’s study between theoretical and experimental physicists—and ensure the continuation of their difference over time, which offers the prospect of future mutual benefits through trade. A trading zone is not a physical infrastructure but rather a set of local processes focusing on exchange among groups involved in using one another’s expertise. Drawing on the trading zone concept allows us to examine the often-contentious development and delivery of incremental innovation services across intra- and inter-firm actors. It also allows us to complement existing insights into the role of relationships and social capital among buyers and sellers with an emphasis on the exchange itself. We argue that trading zones fill an important function between contractual arrangements for fully specified technical interfaces and entirely implicit relational links in understanding the processes in which sales, marketing and technical development can be aligned with purchasing and use.

2. Conceptual background

2.1. The management and marketing of innovation as a service

Managing and marketing innovation as a business service requires coordination and integration across multiple parties, external and internal resources, actors and organizations (Cantù, Corsaro, & Snehota, 2012; Foss et al., 2011; Lawrence & Lorsch, 1967). The contingencies of developing innovation as a service require close alignment between the ‘sensing’ and ‘seizing’ of opportunities (Kindström et al., 2013). The marketing of innovation as a service can learn from research into service innovators, in which managers and marketers are agile and customer-centric, often relying on the insights of colleagues across multiple contact points such as sales, logistics and maintenance (Kowalkowski et al., 2012). Möller et al.’s (2008) description of incremental service innovation for instance requires complex and lasting interfaces between supplier and customer and hints at a supplier’s innovative capacity in itself becoming the service sold: “Successful client-driven innovation implies a client’s ability to demand services and the service provider’s ability to meet these requirements in incremental but continuous fashion” (p. 38). Examples include knowledge-intensive services such as consultancy, corporate banking, advertising or prototyping, which feature continuous problem solving and require extensive joint activities between buyers and sellers for solutions to be designed and value to emerge (Aarikka-Stenroos & Jaakkola, 2012; Kohtamäki et al., 2013).

Incremental innovation as a business service is supported by firms developing social capital (Kohtamäki et al., 2013). Kindström et al. (2013, p. 1068) argue that relationships are a promising basis for assessing innovation opportunities as they materialize “over repeated cycles of interactive co-creation [with the customer]”. SDL also talks about identifying, mobilizing and integrating resources for the co-creation of value as relationally embedded, extending to supplier and customer networks (e.g., Cova & Salle, 2008; Vargo & Lusch, 2011). However, while valuable in tracing the processes of co-creation, a focus on relationships and activities put to practice in value co-creation seem to render the exchanges themselves almost invisible. For instance, though Aarikka-Stenroos and Jaakkola’s (2012) framework of supplier and customer roles in collaborative problem solving is comprehensive, none of the activities detailed refer to the commercial exchange itself.

Though we acknowledge the centrality of relationships in resource integration, we argue that given the characteristics of the

good being traded, exchanges of incremental innovative capabilities can be particularly challenging and that attention should be given to these. Following Callon and Muniesa (2005), exchanging a service requires defining boundaries around and access to socio-technical capabilities, which means drawing together resources from different parties and also, importantly, formatting them for exchange. In the area of solution selling, Tuli et al. (2007) and Zhang et al. (2013) show how such resources or inputs are also interactive, becoming stable only in specific uses. Second, formatting a service as tradable extends beyond a firm and an immediate trading relationship to include valuations that guide exchanges, which similarly, are to be made stable (Araujo & Spring, 2006). Following Callon, Méadel, and Rabeharisoa (2002), we thus expect actors to engage in market-making work as well as product or service qualification work.

2.2. Trading zones

We draw on literature on coordination mechanisms in management studies to understand exchanges of incremental innovation in market settings and as a business service. This literature indicates a division between coordination accomplished through the design of common ground or, as Andersen, Kragh, and Lettl (2013) call it, ‘close coupling’, and allowing different work groups to engage in what we may call ‘loose coupling’ (Hsiao, Tsai, & Lee, 2012). In ‘close coupling’, specialization and difference are perceived as a problem to be dealt with through investment in mechanisms such as boundary objects or boundary spanners (Andersen et al., 2013; Carlile, 2002; D’Adderio, 2001; Star & Griesemer, 1989; Tushman, 1977). Similarly, salespeople have been described as boundary spanners and resource integrators in interorganizational relationships (e.g., Geiger and Finch, 2009; Zhang et al., 2013).

By contrast, in ‘loose coupling’ difference and specialism are seen as qualities that allow companies to be innovative, agile and adaptive (e.g. Kellogg, Orlikowski, & Yates, 2006; Stark, 2009). In ‘loose coupling’, groups remain at arms’ length. This is particularly useful in situations where investment in formal coordination processes is prevented by time pressures or diverging organizational goals, such as in fast-moving industries (Girard & Stark, 2002; Kellogg et al., 2006) or ‘skunkworks’ (Fosfuri & Rønde, 2009). In such situations, coordination between groups of experts resemble exchange-like interactions, which management research has studied by drawing on Galison’s (1997, 1999) concept of trading zone.

Galison proposes the trading zone as a style of organizing that allows actors to ‘trade’ their expertise. Trade allows actors to make exchanges locally without needing to become intimately acquainted with one another’s expertise: “Trade focuses on coordinated, local actions, enabled by the *thinness* of interpretation rather than the *thickness* of consensus.” (2010, p. 36, original emphasis). This, in turn, supports the continuing development of specialist knowledge: like members of different tribes encountering each other in a local marketplace, when organizational actors make exchanges in a trading zone, they negotiate limited local agreements on the meanings and qualities of the exchange, irrespective of their global or cultural differences. We see parallels in international business research, in which Tippmann, Sharkey Scott and Mangematin (2012, p. 747) contrast problem solving that requires ‘local template adaptation’ with ‘global principle creation’. In Galison’s account, exchange facilitates access—in a restricted and local sense—to one another’s specialist knowledge and resources and thus makes it attractive to both trading parties.

In following Galison, organizational researchers have found his notion of trading zone helpful in accounting for complex problem-solving in volatile environments. Girard and Stark (2002) observed a new media firm thrive on the creative misunderstandings among heterogeneous actors, where the trading zone guides renegotiations of trade. In a fast-paced web marketing organization, Kellogg et al. (2006) demonstrated that trading zones allowed members of different groups and project teams to accomplish alignment of their work

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