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Stakeholder co-creation during the innovation process: Identifying capabilities for knowledge creation among multiple stakeholders

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ABSTRACT

Extant research investigates a firm's ability to manage co-creation with one type of stakeholder during the innovation process, rather than co-creation with multiple stakeholders simultaneously. While such stakeholder co-creation creates benefits for the focal firm such as access to unique resources and knowledge bases, it also raises new challenges because of the diverse characteristics, interests and goals of the different stakeholders involved. Specific capabilities to anticipate and manage these challenges are therefore of particular interest for research and practice. The study here narrows this gap by conducting an in-depth case study, examining multiple stakeholder co-creation projects embedded within a pharmaceutical firm. The study develops a contingency framework on the role of four stakeholder co-creation capabilities in generating valuable knowledge. Overall, these findings complement extant literature by examining how specific capabilities employed before and during the innovation project may explain differential performance of stakeholder co-creation activities.

1. Introduction

The ability of firms to create knowledge during the innovation process has been identified as a key source of competitive advantage (Bierly, Damanpour, & Santoro, 2009; Grant, 1996). In recent years, firms have realized that such knowledge creation cannot happen solely within the firm. To expand their knowledge base, firms increasingly co-create knowledge with external stakeholders during the innovation process (Hoyer, Chandy, Dorotic, Krafft, & Singh, 2010; Mahr, Lievens, & Blazevic, 2014). For example, leading car brands such as BMW engage thousands of consumers across the world to co-create innovative features in new cars (Poetz & Schreier, 2012). Various streams of marketing and management literature have detailed this process by which firms integrate one type of external stakeholder in their innovation process (Horn & Brem, 2013). In particular, an emergent stream of research focuses on the use of latest technologies to harness contributions from empowered consumers. Through collaborative and competitive mechanisms, individuals create ideas for new product designs, develop additional functionalities, or solve R&D problems (Horn & Brem, 2013; Hoyer et al., 2010). Similarly, a growing stream of research investigates collaborations during the innovation process between two or more organizations (Gnyawali & Park, 2011; Möller & Törrönen, 2003; Song & Thieme, 2009).

Remarkably though, despite the proliferation of research related to co-creation, few studies consider firms that simultaneously include a diverse set of stakeholders in their innovation projects. Yet, in practice, firms increasingly engage in stakeholder co-creation projects, in which one firm includes a multitude of stakeholders during the innovation process. We define stakeholder co-creation as collaborative activities during which multiple interdependent external stakeholders contribute to a firm's innovation process (Gebauer, Füller, & Pezzei, 2013; Hoyer et al., 2010; Mahr et al., 2014). For example, the logistics provider DHL invites academics, politicians, public authorities, and citizens to help it develop city logistics concepts that can reduce the challenge of decreasing urban traffic and embrace a greener economy (Cuccureddu, 2011). Such expanded collaboration creates opportunities for unique knowledge creation, as certain types of stakeholders have access to resources that are not readily available through market transactions, such as detailed insight into utility functions of consumers (Gulati, 1999; Harrison, Bosse, & Phillips, 2010). Yet, concurrently, these socially complex interactions create new challenges for firms. Indeed, bringing a diverse group of stakeholders together leads to potential divergent goals and interests, communication difficulties, distrust among stakeholders, or conflict over value appropriation (Waligo, Clarke, & Hawkins, 2014). Previous research, focusing on the management of co-creation during the innovation process, has not fully considered these challenges. As a result, previously identified capabilities are tailored towards co-creation with one type of stakeholder.

Organizational capabilities allow firms to manage their resources in such a way, that they create a competitive advantage. Indeed, from a

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resource-based view (RBV) perspective, these external stakeholders are resources which may create valuable knowledge for the firm (Driessen & Hillebrand, 2013; Waligo et al., 2014). Therefore, an understanding of the capabilities required by a lead firm to manage stakeholder co-creation projects is important for research and practice (Garnier, 2008; Harrison et al., 2010). Such capabilities allow firms to reap the benefits from stakeholder co-creation better than other firms (Cepeda & Vera, 2007; Menguc, Auh, & Yannopoulos, 2014). Consequently, stakeholder co-creation capabilities may drive a firm's competitive advantage.

Thus, the purpose of this study is to improve our understanding of how knowledge is co-created with multiple stakeholders simultaneously, and which capabilities a lead firm requires to manage this knowledge co-creation process. In addressing these issues, we take a theoretical posture nested in the resource-based view of the firm and the concept of absorptive capacity. From a RBV perspective, external stakeholders are unique knowledge resources that can create value for the lead firm (Garcia-Castro & Aguilera, 2015). A firm's absorptive capacity is its ability to recognize the value of new, external information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990). Both perspectives underscore the need for capabilities to manage resources in such a way that they create valuable knowledge for the firm's current and future operations. Yet, both perspectives have their shortcomings to fully explain the capabilities required for successful stakeholder co-creation. By linking both perspectives to stakeholder co-creation, we offer several key contributions addressing these shortcomings.

First, an important criticism on the RBV is that a firm's resources are not a sufficient explanation of competitive advantage (Menguc et al., 2014). Consequently, we follow other scholars in the rationale that these resources need to be matched with organizational capabilities to deploy them in such a way that they create value for the firm (Day, 1994; Grant, 1996; Menguc et al., 2014). Consequently, a first contribution of this study is to identify the capabilities required to manage stakeholders as unique knowledge resources. We do this by linking the emerging literature on co-creation with the resource-based view and literature on organizational capabilities. In doing so, we answer research calls for more insight in the capabilities required to successfully manage co-creation activities (Lindgreen, Hingley, Grant, & Morgan, 2012).

Second, a common critique of organizational capabilities literature is that identified capabilities remain vague, abstract, or static, without offering an in-depth understanding of these capabilities (Kraaijenbrink, Spender, & Groen, 2010). Without clarification of the routines and individual skills that are the building blocks of each capability, we are limited to an abstract representation. The current study first identifies specific capabilities that strengthen co-creation activities before and during the innovation project. Then, it explicates a set of microfoundations of each of the identified capabilities, thereby recognizing the multilayered nature of capabilities. In this sense it opens a "black box" and breaks down theoretical entities in component elements (Salvato & Rerup, 2011), which enables increased insight in performance heterogeneity, even when firms possess seemingly similar capabilities.

Third, a firm's absorptive capacity is its ability to recognize the value of new, external information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990). This concept receives wide recognition (Volberda, Foss, & Lyles, 2010). However, it also receives criticism in the sense that past studies apply absorptive capacity as a one-dimensional high-level construct (Bierly et al., 2009). Following Lane, Koka, and Pathak (2006), the current study contributes to the absorptive capacity literature by explicitly addressing the capabilities that relate to the context of knowledge co-creation with multiple stakeholders. In doing so, the study examines a specific subset of underlying capabilities of absorptive capacity, rather than seeing absorptive capacity as a single high-level construct.

To gain these insights, the study here employs an exploratory, embedded case study method. With this method, we can understand and identify new constructs that are part of the complex, multilevel phenomenon (Dubois & Gadde, 2014; MacInnis, 2011; Salvato & Rerup, 2011). We purposefully selected a global health care and pharmaceutical company as our research setting. This industry is experiencing a radical transition, is subject to constant pressures for innovation, and features a wide range of stakeholders in which each are becoming more active and empowered (Pullen, de Weerd-Nederhof, Groen, & Fisscher, 2012). Within this context, we examine two embedded cases, which differ in their levels of stakeholder diversity as well as their original purpose, making them a rich setting to explore the complex phenomenon of stakeholder co-creation (Dubois & Gadde, 2014).

The theoretical framing motivates structuring the article as follows. Section 2 is a literature review on co-creation during the innovation process and the link with organizational capabilities and absorptive capacity. Section 3 explains the study's applied case study method. Section 4 presents findings on how knowledge is co-created with multiple stakeholders and how four specific organizational capabilities strengthen this knowledge creation. These capabilities are stakeholder networking capability, stakeholder competence mapping, stakeholder relational capability and stakeholder knowledge management capability. The article concludes with formulating the major implications for the literature on stakeholder co-creation and the limits and potential for further extension of this work.

2. Theoretical background

2.1. Stakeholder co-creation of value during the innovation process

Today's competitive environments require firms to increasingly focus on the creation of valuable knowledge to remain competitive (Hsiao, Tsai, & Lee, 2012). A single firm only has a limited set of resources in its possession to create such knowledge. Therefore, it may benefit from collaborating with other actors to create unique knowledge during the innovation process. Subsequently, firms have opened their innovation processes to involve external actors.

The types of actors involved define the type of knowledge created (Ritter & Gemünden, 2003). While most of the actors that have been explored thus far are primary stakeholders, such as customers (Coviello & Joseph, 2012), competitors (Amaldoss & Rapoport, 2005) or suppliers (Song & Thieme, 2009), research and practice have shown a shift towards collaborating with multiple stakeholder simultaneously during the innovation process. This paradigm shift is driven by two important trends. First, firms increasingly require complex knowledge during their innovation process. Such complex knowledge requires the input of multiple (external) parties (Day, 2011; Hsiao et al., 2012). Second, stakeholders are becoming increasingly empowered, interconnected and willing to share their knowledge and ideas with firms (Fuchs, Prandelli, Schreier, & Dahl, 2013; Gebauer et al., 2013). Such active participation has not always been the focus of stakeholder theory.

Stakeholder theory refers to the management of a firm's relationships with a wide range of stakeholders (Freeman, 1994). Stakeholder theorists acknowledge that organizations need to inform themselves about stakeholder issues (Donaldson & Preston, 1995; Driessen, Kok, & Hillebrand, 2013). Yet, it was not until the recent years that research has focused on how to manage the various tensions that arise by integrating stakeholder issues in decision making processes (Driessen et al., 2013). In a subsequent step, rather than only acknowledging stakeholder needs, firms increasingly involve multiple stakeholders in their decision making process (Waligo et al., 2014). Pretty (1995) identifies two schools of thought regarding participation of stakeholders: (1) using stakeholder integration to drive adoption or (2) seeing stakeholder integration as a fundamental right of those stakeholders. However, in recent years, firms have realized that stakeholder integration may benefit the firm in a more active way where empowered stakeholders are potential sources of unique knowledge during the innovation process.

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