



Co-innovation in networks of resources – A case study in the Chinese exhibition industry



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ABSTRACT

This work explores how network partners collaborate to innovate and innovate to collaborate and thereby achieve value. The innovation processes analyzed are within an IJV in the Chinese exhibition industry. The findings highlight that the IJV's development of a successful trade show resulted from effective co-innovation by partners which enabled the exploitation of opportunities in an industry characterized by rapid growth and continuing structural change. Partner co-innovation enabled evolving strategic and operational capabilities which has led to continued and growing market success. This co-innovation involved the targeted co-mingling of partner resources which creates value that motivated continued cooperation. The effectiveness of the partners' activities is evidenced by the growing size and prestige of their large-scale trade show as well as the expansion of the IJV into other endeavors. The paper concludes by considering the way these innovative processes can be applied in other contexts.

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1. Introduction

Successful inter-firm business ventures require ongoing innovation which creates meaningful value for participants. This is particularly so in challenging markets characterized by high levels of competition and uncertainty. Innovation is here defined as changed processes and outcomes that are undertaken in response to challenging environmental conditions in line with a complexity theory perspective, as discussed by Wilkinson and Young (2002). This paper emphasizes that the strategic management of relationship processes can, if effectively negotiated by network members, facilitate both internal and external network innovation and evolution.

A strategic management innovation framework, together with relationship and network theories, guides this analysis of an IJV in the rapidly-changing Chinese exhibition industry. As noted by Tidd (2001), a competitive and continuously changing global environment presents both opportunities and challenges that drive innovative strategic responses. Strategic management of uncertainty through participation in cooperative networks of relationships has been lauded and is, in itself, an innovative response to a dynamic environment (Hamel & Prahalad, 1989). Here, the cooperative co-management of an IJV is shown to create value outcomes through interaction within and beyond the IJV involving

an industry network made up of suppliers, customers, industry associations and the Chinese government.

Specifically, this paper's aims are to: (1) examine the presence and role of strategic management initiatives within business networks that have been linked to the creation of innovation and value including: common strategic intent, entrepreneurial culture, organization structure, competitive environments and complimentary resource exchange which creates "layered" advantage and (2) ascertain the nature and importance of network collaboration in facilitating innovative value for participants. The discussion that follows highlights the value of this perspective. A continuing process of interaction facilitated by partners' heterogeneity and cooperation enabled 'co-innovation' (i.e. innovation emerging from within business relationships' interactions). Value emerged for the IJV's focal trade show from the resource exchanges at the heart of its partner owners' co-innovation and this facilitated further, more ambitious resource exchange and innovation in related industry networks, as well as enhancing individual partners' competitiveness in other spheres of their business operations.

A horizontal IJV partnership is the focus of this paper because this form of network shows how "co-opetition" occurs within the context of contractual negotiations which result in a unified management process (Child & Yan, 2003). This enables a more transparent evaluation of resource contributions and resulting value creation. The context of the Chinese exhibition industry allowed analysis of processes in an environment of rapid change and development. The remainder of this paper first considers IJV diversity, cooperation and potential for value

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creation through innovation using a strategic management innovation framework (Hamel & Prahalad, 1989). Next, the methodology used to collect and analyze the case study data is discussed. Finally, the case study and its analysis are presented and the implications considered.

2. Literature review: innovation value in relationships and networks

Strategic management perspectives of innovation generally focus on normative evaluation of engineering product and process innovation. These articulate 'strategic' entrepreneurial approaches to innovation development that, it is argued, can assist in gaining competitive advantages critical to success in highly competitive conditions (Lau et al., 2010; O'Regan & Ghobadian, 2005). However the processes that underpin these outcomes, including the network processes in play, have not been considered systematically (Luo, 2002; Zhou & Li, 2008). This paper addresses this oversight by adapting a strategic management framework (Hamel & Prahalad, 1989) to consider how collaborative processes between IJV partners over time create value through innovation as the venture seeks to become a network leader in the trade show industry.

The creation of value through innovation has become increasingly important for business in a volatile global environment characterized by increasingly short product lifecycles and consumer demand for new knowledge, products and services (Johannessen & Olsen, 2010; Tidd, 2001). Innovative value can emerge or be driven from outside the boundaries of an individual organization through collaborative interaction between stakeholders including suppliers, customers (Aarikka-Stenroos & Jaakkola, 2012), partners and networks (Dominguez-Péry, Ageron, & Neubert, 2013). It results from a creative synergy that would not occur without relational cooperation. It is also argued that cooperation among competitors, 'may turn out to be one of the most basic impetuses for innovation and value creation' (Johannessen & Olsen, 2010 p 509). However it is not clear how value through collaborative innovation 'comes into being' or is driven (Johannessen & Olsen, 2010 p 502) and there is 'scant elaboration on the roles performed, or contributions made by the parties to create value' (Aarikka-Stenroos & Jaakkola, 2012 p 16).

To systematically explore the nature and drivers of value innovation, an adapted version of a strategic management framework originally proposed by Hamel and Prahalad (1989) is used as this highlights the importance of co-managing innovation and includes collaboration as an important source of inspiration. Central to this framework is the notion that innovation is motivated by what Hamel and Prahalad (1989) characterize as strategic 'intent', i.e. innovation requires recognizing opportunities and setting goals to achieve them. 'Commonality' of ambition and/or goals enables this kind of innovation within collaborative relationships. It is further argued that the achievement of common goals builds additional collaboration, thereby enabling increasing overlap in strategic intent (Wilkinson & Young, 2002) and with the increased individual and joint capabilities that result enabling enhanced performance and increased innovation (Luo, 2002).

Arguably in international business (IB) contexts, common strategic intent in relationships may be critically important as a coordination and unification device, however it is likely to be more difficult to achieve — as partners have differing cultural contexts that are likely to lead to somewhat different goals. For example in Chinese-Western IJVs, foreign partners are often interested in establishing credibility and markets in China and delivering long term growth and profits for the 'home' firm (Child & Yan, 2003; Lau et al., 2010). In contrast, Chinese partners may be more interested in gaining access to export markets and achieving short term profits (Child & Yan, 2003). We speculate that effective operations with mutually acceptable value creation may be impossible under such circumstances unless there is overarching strategic intent which guides the management of collaboration.

Entrepreneurial cultures which influence the propensity of an organization to seek and respond to opportunities also drive innovative

activity (Hamel & Prahalad, 1989). However diverse network partners are likely to have different levels of entrepreneurial orientation. For example, studies in IB have found Asian-Chinese IJVs are less entrepreneurial than Asian-Western IJVs (Lau et al., 2010). This is often discussed in terms of the differing values of Eastern versus Western business cultures (Hofstede, 2001). Entrepreneurship has been negatively associated with Chinese "values" including: 'the avoidance of uncertainty, collectivism and acceptance of hierarchy and authority' (Lau et al., 1999 in Lau et al. 2010 p 7). These values are thought to contribute to a 'hierarchical and bureaucratic organizational structure' (Lau et al., 2010 p 7) which discourages innovation. Conversely, it is argued that Western values manifest as 'open communication, decentralized decision-making, a flatter organizational structure, flexible management styles and individualism' which encourage innovation (Lau et al., 2010 p 7).

Organization size and ownership structure are often viewed as important determinants of innovative culture and capabilities. Large companies have the advantage of 'size and scale' but are often less adept than are small companies at 'ensuring that the blanket of bureaucracy doesn't smother the flames of innovation' (Hamel, 2006 p 77). Innovativeness also has been linked to the size and ownership status of Chinese companies. It has been suggested that large, publically owned State firms in China, for example, may lack the entrepreneurial skills and flexibility which contribute to improved IJV performance (Park & Luo, 2001; Park et al. 2006). A study of Chinese IJVs found that 'flexibility' impacted positively on pro-activity and innovation (Lau et al., 2010). The Hamel and Prahalad framework (Hamel & Prahalad, 1989, p 70) emphasizes the importance of entrepreneurial organizational cultures that support risk-taking and searching for innovative opportunities. The IJV literature similarly recognizes that an entrepreneurial organization is one that promotes the 'proactive search for new opportunities' as well as the 'on-going [internal] management of the process of innovation' (Lau et al., 1992 in Lau et al. 2010 p 8).

While useful, these are explanations of innovation in terms of the characteristics of the participants rather than the character of their relationships. The business marketing literature takes a broader perspective arguing that the nature of inter-firm cooperation is a key determinant of relationship and network performance (and that innovation is often an important determinant of performance). This substantial body of work indicates that innovation and more generally relationship and network performance are emergent, that is, they emerge from the rich interaction processes of network participants (Wilkinson & Young, 2002) rather than from the activities of individual firms. Hamel and Prahalad's framework (Hamel & Prahalad, 1989) emphasizes the value of such inter-organizational collaboration for innovative outcomes. We suggest that this collaboration is linked to the building of 'multiple layers of advantage' that are difficult to imitate — another part of the framework adapted from Hamel and Prahalad (Hamel & Prahalad, 1989). Brands and distribution channels are presented as examples of layering that is done by creating and adjusting resources but business marketing literature recognizes that it is also difficult to imitate the creative combining of diverse cross-organizational resources, e.g. by facilitating process and product innovation (Cantù, Corsaro, & Snehotka, 2012). International business relations have considerable potential for highly innovative combining as participants are likely to have particularly diverse resources, experiences and market perspectives given their different circumstances and contexts. Services literature considers innovation in similar terms — process and resource contributions can be innovatively layered to create a new service (den Hertog, Wietze van der, & de Jong, 2010 p 494). Diversity in partnerships with its greater range of processes and resources creates fertile ground for these kinds of service innovations.

In such diverse partnerships, the overall compatibility of partner resources (Beamish & Inkpen, 1995), balance of resource contribution (Robson, Leonidou, & Katsikeas, 2002) and relevance of resources to goal achievement (Child & Yan, 2003) have been shown to positively influence a partnership's performance. It is argued that this is because

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