Industrial Marketing Management 43 (2014) 504–511

Contents lists available at ScienceDirect

Industrial Marketing Management

Innovation in business networks: The role of leveraging resources

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ARTICLE INFO

Article history:
Received 30 June 2012
Received in revised form 7 December 2012
Accepted 8 May 2013
Available online 15 January 2014

Keywords:
Business relationships
Innovation
Resources
Property rights

ABSTRACT

This study investigates how companies innovate in their business networks. We examine the role of leveraging resources in the context of retail brand paints within the do-it-yourself (DIY) paint industry, where the role of innovation is pertinent to achieve differentiation and create value. The study investigates innovation as a process of leveraging resources within business relationships. Research findings demonstrate that manufacturers and retailers jointly leverage resources to develop and launch innovative retail brands. Companies need to carefully address these resource-leveraging processes and assess their options in developing innovations that enable sustainable growth.

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1. Introduction

Business networks are complex webs of business relationships (Ford & Mouzas, 2010; Mouzas & Ford, 2009) in which exchanges are performed (Biggart & Delbridge, 2004). Through on-going exchange processes, business actors seek to create and capture value (Lepak, Smith, & Taylor, 2007). The ability of businesses to succeed in their endeavors to create and capture value appears to be inextricably linked with their effort to identify new and innovative exchange possibilities (Prabhu, Chandy, & Ellis, 2005). Innovation is a multi-faceted phenomenon which can be looked at from various angles. These include factors that enable inventions to become innovations (Chandy, Hopstaken, Narasimhan, & Prabhu, 2006), determinants of innovation (Love & Roper, 1999) and consumer responses to innovation (Hauser, Tellis, & Griffin, 2006) among others. This study looks at the link between innovation (Prabhu et al., 2005) and the leveraging of resources (Håkansson & Waluszewski, 2007) to examine how companies create innovative retail brand products. Brands are often considered the vehicle to communicate innovation to end-consumers. For a long time, industrial brands (those owned and managed by manufacturers) dominated the do-it-yourself (DIY) market, being the only brands to focus on new innovative product concepts. In recent years, however, retail brands have undergone rapid development to become both innovative and highly competitive brands. Previous research that has looked at this development confirms that retail brands are "universally accepted by consumers as a clear brand alternative, offering the same quality assurance and product innovation as leading brand manufacturers" (Burt, 2000, p. 886).

Notwithstanding the significance of development in this area, there is a lack of empirical evidence on how companies actually leverage resources in order to innovate in retail brands. This research attempts to address this gap by answering the following research questions: 1) What is the role of leveraging resources in the context of innovation in business networks? 2) Which parties are involved in the process of innovation for retail brands? 3) What role do property rights play in the innovation process? To address these research questions, we develop a theoretical perspective that considers three aspects: First, we discuss the role of resources within business relationships and their influence on innovation. Second, we frame our research according to a process view of innovation; and third, we include research on property rights in order to address innovation ownership.

The structure of the paper is as follows. We present an overview of relevant literature and introduce our empirical case, which illustrates the role of innovation in retail brand development and the interactions among actors in carrying out this process. This is followed by introducing our theoretical model on the processes of innovation and analysis of the case, which reveals insights about the role of leveraging resources in the process of developing innovative retail brands within business relationships. A discussion of the managerial and research implications as well as research limitations concludes the paper.

2. Previous research

2.1. Resources in business relationships

Scholars have recognized that it is a challenge to understand the repercussions that emerge from companies being embedded in complex networks of business relationships (Håkansson, 1987; Håkansson

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http://dx.doi.org/10.1016/j.indmarman.2013.12.018

& Snehota, 1995). Resources play a vital role in this context (Barney, 1991; Collis & Montgomery, 1995; Peteraf, 1993; Wernerfeld, 1984). Companies are not in total control of resources and have to consider other surrounding companies (Ford, 1997; Håkansson & Ford, 2002; Håkansson & Waluszewski, 2007; Wilkinson & Young, 1994) and "form relations with others that complement their own activities, skills and resources" (Wilkinson et al., 2003).

According to Hunt and Madhavaram (2006), resources are "tangible and intangible entities available to the firm that enable it to produce efficiently and effectively a market offering that has value for some market segment" (Hunt & Madhavaram, 2006, p. 69). Resources have an enabling capacity (Hunt, 1997) and companies can make use of different kinds of resources, including (1) financial, (2) physical, (3) legal, (4) human, (5) organizational, (6) informational, and (7) relational resources (Hunt & Madhavaram, 2006, pp. 69–76). In this study, we utilize the 4R model from Håkansson and Waluszewski (2002, 2007) in our theoretical model to analyze the variability of resources in use by actors during the process of innovation. Håkansson and Waluszewski (2002) present two types of resources, technological (products and facilities) and organizational (organizational units and organizational relationships) resources which are "combined with each other into different technological systems" (Håkansson & Waluszewski, 2007, p. 17). These resources are developed over time in relation to each other (Håkansson & Waluszewski, 2007). When analyzing business relationships, it is, therefore, not enough to look at snapshots or outcomes at certain points in time but to look at resources over time, in the context of interactions within business relationships (Håkansson & Ford, 2002; Håkansson & Snehota, 1989). It is relevant to look at actors, activities and resources (Håkansson, 1987) and ways of utilizing resources in order to discuss innovation in the context of business relationships.

2.2. Multiple perspectives on innovation

The term innovation offers a multiplicity of interpretations. It is important to differentiate between invention and innovation. Research confirms that there are specific factors that influence the conversion rate, which include expertise, the number of ideas and speed to market (Chandy et al., 2006). In other words, companies with the "highest conversion ability are those that: 1) focus on a moderate number of ideas that are of importance, in their areas of expertise, and 2) deliberate by adopting a moderate level of speed in product development" (Chandy et al., 2006, p. 7). Unfortunately, research confirming why some products make it to market and others do not, is sparse (Greenley & Bayrus, 1994; Scott Morton, 1999; Thölke, Hultink, & Robben, 2001).

According to Wilkinson and Young (2012, p.2), "innovation involves two kinds of processes: a) the emergence or evolution of new ideas, which may also be described as entrepreneurial or creative acts or opportunity recognition; and b) the development and exploitation of these new ideas". These processes are 'distinct' but 'interconnected' (Chandra, Styles, & Wilkinson, 2009, 2012) and recognize that developing and exploiting ideas may lead to new ones.

With extant literature looking at innovation through time, innovation is often researched as a discrete event or a snapshot in time. Although this might be empirically convenient, scholars (see Damanpour, 1991 for example) have criticized this view as a "ubiquitous single-snapshot technique" (Avittal, 2000, p. 66). Yadav, Prabhu, and Chandy (2007) for example point out the need for including stages of detection, development and deployment in the innovation process. Detection is referring to the notion of creating and following ideas, which could lead to the arrival of a new technology (Kaplan, Murray, & Henderson, 2003). Development refers to the stage, in which the idea is converted into a technology or service that has the potential to enter the market (Yadav et al., 2007). In the deployment stage, the launched innovations are improved or new features are added (Slotegraaf, Moorman, & Inman, 2003; Tellis & Golder, 2001). "The distinction among detection, development, and deployment is useful in studying the process of innovation in a firm and is in line with calls to study innovation as a process that evolves over time" (Yadav et al., 2007, p. 86). In addition to viewing innovation as a process, it is also important to consider how companies can protect their innovativeness. Therefore, the next section outlines the importance of property rights in the context of innovation.

2.3. Property rights and innovation

One of the most important challenges for companies is the protection of innovation. Property rights, therefore, play a vital role. Scholars view property rights in the context of formal and informal mechanisms: "Property rights represent a subset of the full range of possibilities by which a firm can protect its ideas, through formal mechanisms, e.g. patenting and copyright and informal mechanisms, e.g. product complexity, secrecy and lead time to market" (Cassiman & Veugelers, 2002; Gooroochurn & Hanley, 2007, p. 1485; Veugelers & Cassiman, 1999). Differentiating between formal and informal mechanisms or "legal and strategic protection" (Cassiman & Veugelers, 2002, p. 1171) becomes important due to the multiplicity of reasons companies might not be able to protect their innovations. This is applicable for tangible resources and intangible resources such as knowledge-based resources that take the form of intellectual assets, know-how and expertise (Mouzas & Ford, 2012).

Our understanding of property rights is congruent with Gooroochurn and Hanley (2007) who argue that: "Property rights are synonymous with appropriation" (p. 1485). Previous research in the area of property rights and innovation confirms the importance of appropriation (Cassiman & Veugelers, 2002; Grünfeld, 2003; Kamien & Zang, 2000; Levin, Klevorick, Nelson, & Winter, 1987; Love & Roper, 1999; Martin, 2002; Veugelers & Cassiman, 1999). In order to link innovation to the role of resources and property rights, the next section presents our theoretical framework that serves as an analytical tool in the case analysis.

3. A framework for studying innovation in business networks

Our framework for studying innovation in business networks is based on the assumption that innovation is an iterative process over time. We partly base our theoretical model on Yadav et al. (2007), who argue that innovation is a process including various stages. Because the process is not straight forward but requires interaction and questioning of the status quo, we include four stages in our model: the detecting stage, the developing stage, the contracting stage and the launching stage. Detecting refers to the exploitation of new ideas and analysis of problem statements in order to achieve a consensus concerning further development that could lead to an innovation outcome. Developing is the process of further exploring ideas in order to create new knowledge and develop a product or service innovation. Contracting embodies multiple actions including the 1) presentation of the product or service to potential customers, 2) evaluation of those and 3) negotiation, leading to a final agreement or not concerning the product or service innovation. Launching involves necessary preparations and allocation of resources for the launch. Other than Yadav et al. (2007), we argue that it is important not to combine presentation, evaluation and launch in one stage but to look at factors such as presentation format, evaluation criteria and ways to achieve an agreement in a separate contracting stage.

The framework for studying innovation (Fig. 1) in business networks guides our examination of how companies' resources are leveraged in each of the stages. Because resources are limited, companies need to understand the leveraging they can accomplish with their own resources and how they can benefit from other companies' resources. As resources can take different forms and can be combined in multiple ways, we include the 4R model (Håkansson & Waluszewski, 2007, p. 17) in our theoretical framework to look at various types of resources in more detail. Congruent with the 4R model, we look at the interplay between two

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