

How different? Comparing the use of design in service innovation in Nordic and American new technology-based firms

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This paper explores differences in the use of design in service innovation in Nordic and American new technology-based firms and is based on a systematic qualitative comparison of case data collected on eight service innovation projects in each of the locations. Differences were expected due to these two locations' disparity in terms of agglomeration of technology-based firms and access to design resources. The results of the comparison indicate that there are more similarities than there are differences in how design is used in service innovation in these two locations. Possible explanations are explored and implications suggested.

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The geographic concentration of industries is common (c.f. Krugman, 1991) and the concentrations of high-technology companies in Silicon Valley in California and Route 128 in Massachusetts are good examples. While industrial agglomeration may arise for idiosyncratic reasons there are two characteristics which could help sustain such clustering (Sorenson and Audia, 2000). First, organizations might perform better and survive longer in concentrated regions. Second, such regions might be characterized by a high frequency of new firm start-ups. Economic explanations for agglomeration typically focus on the former characteristic, namely better performance. They suggest that firms located in such regions may enjoy comparative advantage, for example by having better access to important factors for production or being closer to customers (Weber, 1928), than other firms. They also suggest that co-location itself may yield additional advantages, which are not necessarily related to specific locations as such. These advantages include extended division of labor, common labor markets, and knowledge spillovers (Marshall, 1920; Krugman, 1991; Saxenian, 1994).

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An alternative explanation, based on the nature of entrepreneurial opportunities, focuses on the latter characteristic, namely higher founding rates. Organizations provide the social context within which individuals acquire the

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capacities required for entrepreneurial action. Individuals acquire industry specific knowledge and information about entrepreneurial opportunities, build social networks, e.g. with customers and suppliers, that facilitate resource mobilization, and develop the confidence to start new ventures (Freeman, 1986; Audia and Rider, 2006). As the concentration of firms increases, there will be a greater number of firms belonging to the same industry within a region, which in turn creates a larger pool of potential entrepreneurs and higher founding rates (Sorenson and Audia, 2000).

Both of the explanations discussed above include an element of path dependence. This means that geographic economic organization is seen both as the outcome of a process where the future is not only dependent on the current state but also on previous states, and as a determinant shaping the process (Martin and Sunley, 2006). Hence, regions move along different trajectories, each marked by differences in the context within which firms organize their activities.

While we understand that path dependence plays an important role in explaining how regions become 'locked-in' to an unfavorable trajectory we know less about how regional paths are created, and even more importantly, what determines their persistence (Martin and Sunley, 2006). The purpose of this research is to explore these questions through an empirical comparison of how new technology-based firms in two regions use design as an element of service innovation.

In conjunction with a stream of research on design as an element of service innovation in new technology-based firms (NTBFs) in a Nordic country (Iceland), the decision was made to extend the research to include comparison with NTBFs in the United States. More specifically, comparison was made with NTBFs in the San Francisco Bay area. The goal was to examine differences in the use of design in NTBFs in these two geographically distant places, which are also highly disparate in terms of the concentration of technology-based firms.

The aforementioned stream of research was motivated by existing research suggesting that design can be an important means to achieve success in innovation (Moody, 1984; Rothwell and Gardiner, 1984; Walsh et al., 1992; Gemser and Leenders, 2001; Hertenstein et al., 2005). There is little existing research on design in new firms, and even less in NTBFs in particular. The research was undertaken to address this gap. Also, existing research on innovation in general, and design as an element of innovation specifically, has focused on the design of tangible products rather than services, whereas in this research the focus is on the design of services, more specifically technology-based services, and so again the perspective of this research is unusual and warranted.

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