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ABSTRACT

This article explores the role of institutions in innovation from a service-ecosystems perspective, which helps to unify diverging views on innovation and extend the research regarding innovation systems. Drawing on institutional theories, this approach broadens the scope of innovation beyond firm-centered production activities and collaboration networks, and emphasizes the social practices and processes that drive value creation and, more specifically, *innovation* – the combinatorial evolution of new, useful knowledge. Based on this ecosystems view, we argue for *institutionalization* – the maintenance, disruption and change of institutions – as a central process of innovation for *both* technology and markets. In this view, *technology* is conceptualized as potentially useful knowledge, or a value proposition, which is both an outcome and a medium of value co-creation and innovation. *Market innovation*, then, is driven by the combinatorial evolution of value propositions and the emergence and institutionalization of new solutions.

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1. Introduction

The ongoing study of innovation is driven by a need to develop more compelling value propositions (Lusch & Vargo, 2006) in an increasingly interconnected and dynamic world. However, the diversity of disciplines within which innovation is studied, and the fragmented nature of this body of literature (Hauser, Tellis, & Griffin, 2006), make it difficult to understand the central processes by which innovation occurs and, more specifically, how new markets form (Bower & Christensen, 1995; Kim & Mauborgne, 2005). Furthermore, the study of innovation in general has been developed from a view of value creation that separates firms as producers (e.g., innovators) and customers as consumers (e.g., adopters) of market offerings (Vargo & Lusch, 2011). This conventional view has limited the understanding of how multiple participants (e.g., firms, customers and other stakeholders) contribute to value creation, as well as innovation.

Recent research regarding networked (e.g., Corsaro, Cantu, & Tunisini, 2012) and systemic (e.g., Geels, 2004; Sundbo & Gallouj, 2000) views on innovation, provide a more dynamic view of market interactions, which has helped to bring together different components of innovation (e.g., product development and customer adoption) and

broaden the scope of innovation from a focus on technology to an emphasis on market relationships (Coombes & Miles, 2000). In particular, the study of innovation has begun to extend beyond firm-centric development activities and provides evidence of multiple participants in innovation (Corsaro et al., 2012; Dhanarag & Parkhe, 2006). This expanded view has drawn attention toward the interrelated processes and interconnected relationships through which innovation occurs.

While much of this literature remains “production”-centric, and maintains a distinction between those who “develop” and those who “adopt” innovations, the realization that users have the capacity to drive innovative efforts (Oudshoorn & Pinch, 2003; von Hippel, 2007) points to a more interactive and systemic view of innovation. This movement toward a more dynamic approach raises issues with innovation models that center on unidirectional processes, such as the linear model of innovation,³ and emphasize firms as innovators and customers as adopters. It underscores the need for a more unified and comprehensive framework that can provide a deeper understanding of the various participants and underlying processes from which new technologies and, ultimately, markets emerge.

In this paper, we propose an ecosystems approach for considering different “types” of innovation (i.e., technological and market innovation) as driven by a common process – i.e., *institutionalization* (e.g., Barley & Tolbert, 1997). In particular, we apply service-dominant logic (Vargo & Lusch, 2004, 2008), and its institutional, *service ecosystems*

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³ The term linear model is used in a variety of ways that seem to converge in the notion that “innovation starts with basic research, then adds applied research and development, and ends with production and diffusion” (Godin, 2006, p. 639).

view (Vargo & Lusch, 2011), to further extend, and potentially transcend, a systemic view of innovation (e.g., Geels, 2004; Sundbo & Gallouj, 2000). This approach points toward *institutions* – humanly devised rules, norms, and meanings that enable and constrain human action (Scott, 2001) – as a central aspect of generating novel ways to create value.

An S-D logic, service-ecosystems view centers on the collaborative creation of value (i.e., value co-creation), the integration of dynamic resources, and the institutions that influence, and are influenced by, interactions among multiple actors (Vargo & Lusch, 2011). According to Lusch and Vargo (2014, p. 161) service ecosystems are “relatively self-contained, self-adjusting system[s] of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange.” Within a service-ecosystems view, *technology* is considered as a dynamic resource, or potentially useful knowledge (Mokyr, 2004); *markets* are conceptualized as institutionalized solutions (Vargo & Lusch, 2013); and *innovation* is the collaborative recombination or combinatorial evolution (adapted from Arthur, 2009) of practices that provide novel solutions for new or existing problems.

This focus on the integration of dynamic resources and collaboratively created value suggests that interactions among various actors are not only influenced by, but also influence the reformation of institutions that constitute markets. We argue that this dynamic relationship between interaction and institutions points toward *institutionalization* – the maintenance, disruption and change of institutions (Lawrence & Suddaby, 2006) – as a central process of innovation for both technology and markets. More specifically, we articulate how both technology and market innovation are shaped by ongoing negotiation and recombination of overlapping institutions, driven by value co-creation. This institutional view of innovation can establish a robust, parsimonious and dynamic framework for studying and understanding the central drivers of technological advancements, and provide insight to how the same practices and processes that guide value co-creation drive the innovation of markets as well.

Thus, this article brings together historically divergent perspectives on innovation – particularly those centered on technological development and those centered on market relationships – and investigates the underlying practices and processes that generate new ways to create value. To this end, we first briefly review diverging views regarding different “types” of innovation and then discuss more recent, converging views that point toward a broader, systemic approach. We shed light on the dynamics of innovation systems by highlighting emerging perspectives on technology and markets. We then propose an S-D logic, service ecosystems approach that further integrates and extends these converging views by emphasizing the importance of institutions in innovation. Based on this, we outline the way in which innovation occurs through the institutionalization of new, and potentially useful knowledge. This approach provides a framework for rethinking the relationship between technology and markets by shedding light on how *market innovation* – the emergence and institutionalization of new solutions – is driven by the integration and generation of compelling value propositions (i.e., technologies), which drive ongoing interactions among multiple stakeholders. We conclude with the implications of this (eco)systems approach to innovation and highlight directions for future research.

2. Divergence and convergence of innovation research

The interdisciplinary nature of innovation research has led to important findings regarding multiple aspects of innovation that range from the development of new technologies to customer adoption of new products. However, the advancement of innovation research across diverse disciplines (e.g., management, marketing, and information systems), with varying points of view (Hauser et al., 2006), has resulted in a fragmented body of literature. In particular, innovation research has been largely separated by a primary emphasis on *technological* aspects of innovation, such as product development, and only recently has begun to increase the investigation of *market* aspects of innovation,

such as market relationships (Coombs & Miles, 2000) and socio-technical innovation systems (Geels, 2004; Nelson & Nelson, 2002; Sundbo & Gallouj, 2000). In the following sections, we detail a shift from diverging views in innovation research to the convergence of a socio-technical systems view of innovation.

2.1. Diverging views

The fragmented nature of the innovation literature suggests that there are multiple processes of innovation depending on the “type” of innovation involved. This separation originated with Schumpeter’s (1934) identification of five areas of innovation – product innovation, process innovation, market innovation, input innovation and organizational innovation (see Abernathy & Clark, 1985). Although most of these types of innovation referred to products or processes, Schumpeter (1934) recognized market innovation as a distinct type of innovation as well.

More recently, Abernathy and Clark (1985) separated innovation into two domains of innovative activities: technology/production and market/customer. In their view, the “technology” side of innovation focuses on the production and operation processes involved with the design and development of new products. Alternatively, the “market” side of innovation focuses on the distribution of products and the development of relationships with customers. Along these lines, Hauser et al. (2006) identified five fields of research on innovation that center on the development of new technologies (i.e., organizations and innovation, and prescriptions for product development) and understanding the markets within which technologies are adopted or diffused (i.e., consumer response to innovation, strategic market entry, and outcomes for innovation).

This separation between technological and market aspects of innovation is rooted in a historic economic perspective that separates “production” and “consumption” processes (Vargo & Lusch, 2011) and considers firms as “producers” of value and customers as “consumers” or destroyers of value. Consequently, traditional innovation literature has paid little attention toward the role of “users” in innovation (Oudshoorn & Pinch, 2003; von Hippel, 1978), and has provided limited insight as to how market relationships are developed and new markets are formed (Christensen, Baumann, Ruggles, & Sadtler, 2006). In particular, conventional approaches to innovation have focused on firms as “innovators” (e.g., Schumpeter, 1934; Urban & Hauser, 1980) and centered on the development of new products and corporate processes. In this research, “end users” or “consumers” are largely viewed as having relatively static (current or future) needs (e.g., Griffin & Hauser, 1993), and are often classified into “adopter” categories.

In general, much of the traditional innovation literature has focused on firm-centric, product-development processes. This research has also centered on dyadic interactions through which value flows sequentially from innovation-creating firms to innovation-adopting and value-destroying consumers. In this view, customer influence on innovation is usually centered on the demand of new products or “market demand” (Hauser et al., 2006; Howells, 1997). However, recent research on networked and systemic views of innovation has begun to bring together varying viewpoints and redirect attention toward the roles of multiple actors, including users, in innovation.

2.2. Converging views

Broadening the scope of innovation beyond internal firm activities, Freeman (1991) began the conversation around networks of innovation by recognizing the “external sources of scientific and technical information and advice” from which firms are able to draw upon in order to develop new technologies. Importantly, this networked view of innovation has led the way for considering the participation of multiple actors and the perspectives of *users of technologies*. According to Dodgson, Mathews, Kastle, and Hu (2008, p. 431), “innovation networks

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