Target and position article

Driving service innovativeness via collaboration with customers and suppliers: Evidence from business-to-business services

Nima Heirati\textsuperscript{a,b,*}, Vida Siahtiri\textsuperscript{b}

\textsuperscript{a} School of Business and Management, Queen Mary University of London, Bancroft Building, Mile End Road, London E1 4NS, United Kingdom
\textsuperscript{b} Department of Marketing & Management, Macquarie University, Building E4A, Macquarie Park, Sydney, NSW 2109, Australia

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\textbf{A B S T R A C T}

Service innovativeness represents a key source of competitive advantage and a research priority. However, empirical evidence about how service firms successfully offer novel and meaningful services is scarce, particularly in the context of business-to-business (B2B) service firms. Drawing on the B2B collaborative perspective and KBV, we aim to investigate when customer and supplier collaboration are more beneficial to drive service novelty and meaningfulness. Using data of 186 B2B service firms, the results reveal that collaboration with customers and suppliers are not equally beneficial to drive both novelty and meaningfulness and their outcomes can be amplified or lost under specific conditions. Customer collaboration is more beneficial to increase novelty in the presence of exploratory learning and employee collaboration. Contrary, supplier collaboration drives novelty only at higher levels of exploratory learning. Further, supplier collaboration is more beneficial to improve meaningfulness at higher levels of employee collaboration. Finally, the positive outcomes of both customer and supplier collaboration disappear in the presence of knowledge tacitness. Our findings provide new insights about drivers and contingencies that affect different aspects of service innovativeness.

\section{1. Introduction}

Offering novel and meaningful services are critically important in business-to-business (B2B) service firms to face the growing competition and dynamism of their business environment (Chen, Tsou, & Ching, 2011; Dotzel, Shankar, & Berry, 2013). B2B service firms not only have to compete by elevating the novelty and uniqueness of their services, but also by offering services that are useful for business customers and effectively address their needs (Ordanini, Parasuraman, & Rubera, 2014; Stock, Oliveira, & Hipple, 2015). Novelty and meaningfulness are conceptually distinct aspects of service innovativeness that together explain how successful new or enhanced services offer unique and meaningful benefits to customers over existing services in the market (Ordanini et al., 2014). Despite the growing attention to service innovativeness, the current literature is mainly focused on the drivers of different degrees of novelty or newness (e.g., radical vs incremental in Chen et al., 2011; Ordanini & Parasuraman, 2011; Snyder, Witell, Gustafson, Fomelle, & Kristensson, 2016). Little is known about distinct drivers of service novelty and meaningfulness, particularly in the B2B services context.

Although the provision of novel and meaningful services is critical, no single service firm possesses all knowledge and competences to succeed by itself (Baker, Grinstein, & Harmancioglu, 2016; Chen et al., 2011). To overcome these constraints, many service firms look outside of their boundaries and collaborate with business partners (Baker et al., 2016; Carbonell, Rodríguez-Escudero, & Pujari, 2009). The literature views customers and suppliers as key external resources, and building effective collaboration with them represents a valuable and inimitable source of competitive advantage (Agarwal & Selen, 2009; Ordanini & Parasuraman, 2011). Despite the growing importance of interfirm collaboration in B2B services, the current literature is limited to investigating the direct contributions of customer and supplier collaboration on the market outcomes and financial performance (e.g., Carbonell et al., 2009; Melton & Hartline, 2010). Yet, little is known whether collaboration with customers and suppliers are equally beneficial to drive both service novelty and meaningfulness. Furthermore, it is acknowledged that firms should possess specific organizational mechanisms to utilize external knowledge shared by business partners (Agarwal & Selen, 2009; Mina, Bascavusoglu-Moreau, & Hughes, 2014). However, we still lack understanding of how specific knowledge management mechanisms may amplify or impede the outcomes of customer and supplier collaboration in terms of service novelty and meaningfulness.

Building on B2B collaborative perspective (Agarwal & Selen, 2009;
Mina et al., 2014) and knowledge-based view (KBV) of the firm (Grant, 1996), we aim to advance the understanding of the different effects of collaboration with business partners on service novelty and meaningfulness in the context of B2B services. B2B collaborative perspective explains the extent that service firms benefit from interfirm collaboration to successfully develop innovative services (Agarwal & Selen, 2009). KBV provide insights about the specific organizational mechanisms that are required to manage and utilize knowledge within the firm (Grant, 1996; Melton & Hartline, 2013). Although collaboration with customers and suppliers help B2B service firms possess the external knowledge, identification of knowledge management factors that impede or facilitate the acquisition, integration, and utilization of external knowledge is equally important (Ordanini & Parasuraman, 2011; Rothaermel & Alexandre, 2009). Following recommendations by Stewart and Zinkhan (2006) and Ostrom, Parasuraman, Bowen, Patricio, and Voss (2015), we integrate KBV and collaborative perspective to develop a framework to investigate the independent roles of customer and supplier collaboration and how specific knowledge management factors help B2B service firms to successfully drive novelty and meaningfulness of their services.

Our study provides two contributions to the literature. First, we extend the work of Ordanini and Parasuraman (2011) who examined the drivers of service innovation outcomes (couch as radicalness and volume) by investigating the independent effects of customer and supplier collaboration on both service novelty and meaningfulness. We respond to the call by Ostrom et al. (2015) who suggest service innovation in complex service network as a key research priority. We argue that while novelty and meaningfulness are overarching aspects of service innovativeness, collaboration with different partners in the service network may affect them differently (Kim, Im, & Slater, 2013; Stock et al., 2015). Therefore, B2B service firms need to understand which form of collaboration is beneficial to drive service novelty and meaningfulness. We contribute to the B2B services literature by showing that collaboration with customers and suppliers are not always beneficial to drive both service novelty and meaningfulness.

Second, we investigate the role of knowledge management mechanisms and the nature of B2B service firm's knowledge to understand the condition that may influence the impact of customer and supplier collaboration on service novelty and meaningfulness. The current KBV literature has identified organizational learning activities (Mazloomi, Jolly, & Morel, 2017; Melton & Hartline, 2013), cross-functional collaboration (Ordanini & Parasuraman, 2011), and knowledge tacitness (Kim et al., 2013) as the key factors that influence the knowledge management. The current literature acknowledges that different organizational learning activities influence the firm's behavior when collaborating with business partners. Literature supports the view that exploitative learning drives firms to focus on the refinement of existing knowledge rather than the adoption of alternative ideas through collaboration (Rothaermel & Deeds, 2004). Exploratory learning pushes firms to acquire new knowledge beyond their boundaries and leverage interfirm collaboration to explore new knowledge domains (Rothaermel & Deeds, 2004). It is advocated that firms should foster their knowledge base diversity and learn knowledge beyond existing boundaries to successfully innovate novel services that address customer needs better than existing services (Mazloomi et al., 2017; Perks, Gruber, & Edvardsson, 2012). The more a firm is exploratory oriented, the more is likely to acquire and utilize diverse knowledge from its business partners (Mazloomi et al., 2017). Thus, we investigate the contextual effect of exploratory learning on the outcomes of customers and suppliers collaboration with respect to service novelty and meaningfulness.

We also focus on the contextual role of cross-functional collaboration (CFC) as the key organizational knowledge integration mechanism that facilitates analyzing, synthesizing, and applying external knowledge acquired from business partners effectively to develop and deliver innovative services (Ordanini & Parasuraman, 2011). Further, many studies show that the tacit nature of knowledge can impede communication and knowledge sharing within interfirm collaborations (Brivot, 2011; Kim et al., 2013). The challenges associated with knowledge tacitness is specifically evident in B2B services because of the high level of expertise and tacit knowledge involved in developing and delivery of these services (Bello, Radulovich, Javalgi, Scherer, & Taylor, 2016; Storey, Cankurtaran, Papastathopoulou, & Hultink, 2016). Through examining the contextual roles of exploratory learning, CFC, and knowledge tacitness, we contribute to the literature and practice by identifying boundary conditions that impede or enhance the effects of customer and supplier collaboration on service novelty and meaningfulness.

2. Conceptual background

2.1. Service innovativeness

Schumpeter (1934) defines innovation as an activity through which creative ideas are turned into the marketable offerings that create profit for the firm. In Schumpeter’s (1934) view, innovation refers to combining different knowledge elements to introduce new offerings that address customers' needs. In this view, newness or novelty is the central concept to measure the degree of difference between new and existing products/services to either a firm or a market (Garcia & Calantone, 2002; Stock & Zacharias, 2013). The extent innovation literature views the concept of newness as the indicator of a product/service innovativeness across two continuums of radical and incremental innovation (Garcia & Calantone, 2002). Incremental innovation or the lower degree of newness refers to the improvement and upgrading of existing products/services (Garcia & Calantone, 2002). Radical innovation or the higher degree of novelty reflects a discontinuous type of innovation that has the potential to induce new demand and shift the market structure (Perks et al., 2012; Stock & Zacharias, 2013).

Despite the extensive attention on drivers and outcomes of incremental and radical innovation, many studies argue that the degree of newness does not solely explain why some innovative products/services are more successful compared to others in addressing customer needs (Stock & Zacharias, 2013). In particular, services that fail to offer meaningful benefits to customers will lose the ground to competing services that already satisfy their needs (Ordanini et al., 2014). This stream of research views novelty and meaningfulness as distinct components of innovativeness (Stock & Zacharias, 2013). While novelty reflects the originality, newness, and uniqueness of ideas; meaningfulness concerns with the appropriateness, usefulness, and advantage of the generated ideas to the target customers (Ordanini et al., 2014; Stock & Zacharias, 2013). Consistent with this stream of research, we argue the definition of service innovativeness should capture both newness and meaningfulness. Therefore, we define service innovativeness as the extent to which a new or an enhanced service offers novel and meaningful benefits to customers compared to those available in the market (see also Bello et al., 2016; Dotzel et al., 2013).

2.2. Interfirm collaboration

Although innovativeness has been commonly seen as the outcomes of the firm’s internal activities (Toivanen & Tuominen, 2009), recent advances in the literature support the collaborative nature of the service development and delivery (Melton & Hartline, 2013; Perks et al., 2012; Storey et al., 2016). This stream of research suggests that service innovativeness is the outcome of collaborative efforts of the service firm and its network of partners such as customers and suppliers (Baker et al., 2016; Perks et al., 2012). Partners contribute to idea creation, turning ideas into innovative services, and accelerating the flow of information and resources to foster innovation (Mina et al., 2014). When service firms engage in such collaborative relationship, they are in a better position to develop services that offer extra value to customers.
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