



# Alliances of service firms and manufacturers: Relations and configurations of entrepreneurial orientation and hybrid innovation

Ricarda B. Bouncken\*, Martin Ratzmann, Robin Pesch, Sven M. Laudien

University of Bayreuth, Chair for Strategic Management and Organization, Prieserstraße 2, D-95444 Bayreuth, Germany

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## ABSTRACT

Alliances between service firms and manufacturers in pursuit of joint hybrid innovations face both advantages and challenges. This study analyzes the ambivalence in service firm-manufacturer alliances via complementarities versus divergences. The mixed method approach consists of a multiple case study of 12 firms, regression analysis, and a fuzzy-set qualitative comparative analysis (fsQCA) of a sample of 190 firms. The three methods deliver consistent and robust results that complement each other. Findings are that a service firm's entrepreneurial orientation enhances joint hybrid innovation and alliances with manufacturers. Divergences between firms have ambivalent influences on joint hybrid innovation, depending on the service firm's entrepreneurial orientation and the equity arrangement of the alliance.

## 1. Introduction

Researchers have turned their attention towards hybrid innovation between service firms and manufacturers (Kindström, Kowalkowski, & Sandberg, 2013). Hybrid innovations can make use of the strengths of service firms in handling information, communication technology, intangible assets, service-related knowledge, and external resources (Tether & Tajar, 2008). Generally, innovation increases by a firm's entrepreneurial orientation, which explains a firm's search for innovative solutions, willingness to take risks, and proactiveness (Covin & Slevin, 1989; Lumpkin & Dess, 1996). Prior studies on manufacturers show that internal innovation increases with greater EO (Rauch, Wiklund, Lumpkin, & Frese, 2009). Only a few studies consider how entrepreneurial orientation influences innovation in alliances (Bouncken, Plüschke, Pesch, & Kraus, 2016), but neglect service firms and hybrid innovation. On the one hand, entrepreneurial orientation facilitates a proactive and risk-taking integration of services with a manufacturer's products towards joint hybrid innovation. On the other hand, service firms differ from manufacturers while divergences increase with high entrepreneurial orientation. Alliance research shows that organizational divergences reduce alliance performance (Lavie, Haunschild, & Khanna, 2012). The configuration of the divergences between service firms and manufacturers might jeopardize their inter-firm complementarities that lead to joint hybrid innovation.

Drawing upon this ambivalence, the present study aims at analyzing

how a service firm's entrepreneurial orientation influences joint hybrid innovation in alliances, considering divergences between firms. The study's theoretical background is the combination of the fit approach in alliance research (Nielsen, 2010) with the dominant business logic concept (Prahalad & Bettis, 1986). Fit of dominant business logics implies how firms can easily use strategic resources to pursue opportunities (Lado, Boyd, & Hanlon, 1997). The model assumes that higher entrepreneurial orientation will help to unknot the complementarities between service firms and manufacturers (Meyer & Heppard, 2000). Yet, divergences reducing fit will cause misunderstanding and discoordination and can reduce hybrid innovation (Argote, McEvily, & Reagans, 2003). It is thus important to understand core divergences and their configurations.

To achieve robust findings (Woodside, 2010, 2014), the present study uses a mixed-method approach. The study comprises a multiple case study of 12 firms, regression analysis, and a fuzzy-set fsQCA of a sample of 190 firms. The multiple case study unravels divergences between service firms and manufacturers. The regression analysis supports the merits of a service firm's entrepreneurial orientation on joint hybrid innovation and shows the ambivalent influence of diverging practices and business logics. The fsQCA clarifies influences by its configuration of divergences, entrepreneurial orientation, and hybrid innovation.

This article begins with the theoretical background, explaining service-manufacturer alliances, entrepreneurial orientation, and the fit

\* Corresponding author.

E-mail addresses: [bouncken@uni-bayreuth.de](mailto:bouncken@uni-bayreuth.de) (R.B. Bouncken), [martin.ratzmann@uni-bayreuth.de](mailto:martin.ratzmann@uni-bayreuth.de) (M. Ratzmann), [robin.pesch@uni-bayreuth.de](mailto:robin.pesch@uni-bayreuth.de) (R. Pesch), [laudien@uni-bayreuth.de](mailto:laudien@uni-bayreuth.de) (S.M. Laudien).

URL: <http://www.bwlvi.uni-bayreuth.de> (R.B. Bouncken).

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concept. The three-step study then untangles key divergences, tests per a regression analysis, and clarifies configurations by fsQCA. The discussion shows how the findings advance theory.

## 2. Theoretical background

Service firms' solutions hold rich, intangible assets and information, incorporating flexible and interactive development processes with customers (Vargo & Lusch, 2004). Manufacturers mainly produce tangible output using sequential and standardized processes (Boyt & Harvey, 1997). Service firms can access external resources and capabilities more easily than manufacturers (Mina, Bascavusoglu-Moreau, & Hughes, 2014). In an alliance with a manufacturers service firms contribute intangible assets and service-related knowledge to joint hybrid innovation (Tether & Tajar, 2008; Ulaga & Reinartz, 2011). The flexible, intangible, and customer-oriented solutions of service firms complement manufacturers' static and sequential business logic and practices (Benavides-Espiriosa & Ribeiro-Soriano, 2014). Entrepreneurial orientation can foster the search for innovative solutions, willingness to take risks, and proactiveness (Covin & Slevin, 1989) while creating new (hybrid) offerings. Greater entrepreneurial orientation transforms tacit and process-related service innovations into hybrid solutions. Hence, service firms with a high entrepreneurial orientation will increase complementarities for hybrid solutions in alliances (Lim, Ribeiro, & Lee, 2008).

**Proposition 1.** Service firms with greater EO will support joint hybrid innovation in alliances between service firms and manufacturers.

Although alliances between service and manufacturing firms have a high potential for complementarities, which can increase by a service firm's entrepreneurial orientation they also face divergences. Divergences might reduce the fit between firms. Fit can measure the coherence of a firm with its environment or with the firm's internal strategy, structure, and processes (Nielsen & Gudergan, 2012). In a narrow definition, the strategic fit between allying firms describes the match between the allies' strategic approaches (Nielsen, 2010). A broader definition relates strategic fit to similarities in technology, products, and markets, separating it from organizational fit with organizational processes and logics (Geringer & Hebert, 1991; Nielsen & Gudergan, 2012). Greater fit of organizational processes and dominant business logics implies that firms can more easily leverage resources to joint value-creation opportunities (Lado et al., 1997). Prior studies focus on cultural divergences between firms to explain alliance failure (Pérez-Nordtvedt, Kedia, Datta, & Rasheed, 2008; Pesch & Bouncken, 2017b). Only Lavie et al. (2012) study operational divergence, finding that organizational divergences can induce alliance failure and that relational alliance mechanisms can cope with divergences and thus maintain alliance performance. Alliances between service firms and manufacturers will face divergences, for instance, from different standardization abilities. The typical case of low standardization of service firms and high standardization of manufacturers hinders their congruent business practices in the alliance (Boyt & Harvey, 1997). In contrast to service firms, manufacturers can split the production and the consumption of their offerings into two separate operations (Vargo & Lusch, 2004). Focusing on the management level, the dominant logic concept(s) can help to explicate why firms fit and how this causes misunderstanding and coordination problems that hinder joint innovation (Argote et al., 2003). Firms with greater dominant business logic fit (Prahalad & Bettis, 1986) can more easily utilize strategic resources in value-creation opportunities (Achrol, 1996), for instance those initiated by an entrepreneurial orientation (Meyer & Heppard, 2000). Diverging business logics negatively influence the application of service firms' entrepreneurial orientation and the ability to leverage hybrid innovation. Firms can benefit from sharing similar approaches to entrepreneurial orientation, seizing opportunities for hybrid solutions (Obloj, Obloj, & Pratt, 2010). Thus, the effect entrepreneurial

orientation has on hybrid innovation depends on divergences between firms.

**Proposition 2.** Organizational divergences between service firms and manufacturers will influence the effect EO has on joint hybrid innovation in the alliance.

However, what are the major organizational divergences between service firms and manufacturers and how do these divergences interact with entrepreneurial orientation on joint hybrid innovation? Can different configurations specify these divergences? A multiple case study, regression analysis, and fsQCA analysis will provide answers.

## 3. Empirical investigation

### 3.1. Multiple case study

The study uses a purposeful sampling approach (Eisenhardt, 1989; Suri, 2011), employing the following selection criteria: (a) All firms operate in a service firm-manufacturer innovation alliance, (b) are incumbents, aged between 5 and 15 years to control for age-based differences in entrepreneurial behavior, and (c) are located within a range of 100 km of one another to avoid influence of cultural differences. Table 1 characterize the sample firms

Initial face-to-face open interviews between two researchers and an informant at the firm included general questions about the innovation alliance with the alliance firm. Interviews lasted about 1.5 h. Interview partners were CEOs, alliance managers, or innovation managers. The researchers contacted interviewees a second time to review and discuss the case write-ups thereby ensuring data accuracy. Data collection took place between April 2014 and September 2015. The Gioia methodology guided the coding (Gioia, Corley, & Hamilton, 2013; Table 2).

Table 2 shows three initial findings. Interviewees confirm that manufacturers and service firms diverge. Core dimensions relate to entrepreneurial orientation and business logics and practices. Service offerings require specific relationship-based practices (Oliva & Kallenberg, 2003). Manufacturing practices are more transaction based than the stronger interaction- and relationship-oriented service practices are (Grönroos & Ojasalo, 2004). In the pursuit of hybrid solutions service firms and manufacturers need to align their divergent practices of value creation (Brady, Davies, & Gann, 2005). Hence, diverging business practices of service firms and manufacturers might reduce the positive influence entrepreneurial orientation has on joint innovation.

### 3.2. Methodology

#### 3.2.1. Sample and data collection

The survey uses key informants from among top and middle management of service firms in alliances with manufacturers. Slightly over half of the firms deliver service components in the medical equipment industry (55%). The rest of the firms deliver services in the general engineering and manufacturing sector (45%). Respondents belong to different corporate departments, including management (32%), marketing (24%), R&D (11%), sales (42%), and other non-specified departments (11%). The average firm size by number of employees is 4197. The average sales volume is 811 million euros. The average firm age is 31 years. The alliance had lasted on average for 10 years. Of the firms, 37% have their headquarters in Germany, 25% in other EU countries, 9% in Asia, 9% in North America, and 2% in South America.

#### 3.2.2. Measurement model

According to Eggers, Kraus, Hughes, Laraway, and Snyckerski (2013), entrepreneurial orientation (EO) is a higher-order construct of three first-order constructs: innovativeness, proactiveness, and risk-taking, connected to three manifest indicators (Table 3). Joint hybrid innovation uses the scale by Bouncken et al. (2016). Diverging business logics (DBL) measured with a single item whether the logics and

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