

# Toward a Theory of Innovation Processes in Inter-Organizational Service Networks

Bill Hefley

Joseph M. Katz Graduate School of Business, University of Pittsburgh

WITH the continued growth of the services economy, a significant portion of this economic activity is implemented as business-to-business (B2B) services. These services may be domestic services delivered internally through a shared service center or an external service provider, or they may be offshored to a shared service center or outsourced to an external, third party service provider. While there are many forms of sourcing [7], all of these are delivered within the context of a service provider-client organization relationship, regardless of whether the service provider is internal or external. Suppliers, or service providers, “are considered to be a potential source of innovation which might be extractable to some extent through an outsourcing relationship” [23]. A recent study of C-level executives found that “innovation from outsourcing is critical for business performance to the majority of [their] firms” [1]. In some cases, organizations seek to outsource for innovation benefits directly; while in other cases, they seek innovation throughout the ongoing service delivery.

## I. DEFINITIONAL CHALLENGES

This difference of goals and perspectives on innovation leads to a larger discussion regarding the question, “What constitutes innovation in the context of externally delivered services and the resulting sourcing relationships?” Is innovation limited to the entire service itself as an innovative, new service? Does it encompass an innovation within the service, a constellation of services, or within the relationship? Is it an innovation that extends an existing service to meet customer needs and create new value? [3] Is it an incremental improvement in the service and its delivery an innovation? Was the innovation planned or emergent? [24] How would these innovations best be characterized? Operational versus strategic? Game changer or radical innovation, or incremental improvement or transformation of services or their underlying technological platforms? [18] Or with some other typology of innovation? [10, 9, 20] Questions such as these are not only definitional, but also are critical to defining the relationships, measures of that service, and expectations regarding the relationship.

B. Hefley, PhD., COP, is with the Joseph M. Katz Graduate School of Business and College of Business Administration at the University of Pittsburgh, Pittsburgh, PA 15260 USA (e-mail: wehefley@katz.pitt.edu), and ITSqc, LLC, Pittsburgh, PA 15213 (e-mail: bhefley@itsqc.org).

## II. UNDERSTANDING THE INNOVATION PROCESS

Are there a set of fundamental principles for service innovation processes that govern all sectors and segments of service? If so, have they been effectively defined and described? Have they been “tested” for their generality and robustness across service industries? Across geographies? What perspective(s) or theories do they build upon?

Regardless of the perspective adopted, whether Actor-Network Theory [11] or Service Dominant Logic [15, 25, 22] or service value networks [6, 27, 13] or some newly emerging, insightful perspective for understanding innovation leading to value creation within specific organizational settings, it is essential that we develop a rich theory that explains how value co-creation occurs in these settings, and what are the antecedents of these innovations. This theory of service innovation must build on these perspectives and provide insight into these three components, as a way to understand antecedents of service innovation success.

*Configurations* - What are the (1) boundaries of, and roles within, the work systems, especially those at or spanning organizational boundaries; (2) ways in which the system is nested in a hierarchy or service value network within and between organizations; (3) relevant elements and actors within the work system at the times relevant to the service innovation, as actors may change throughout the service lifecycle<sup>1</sup>; and (4) interactions between the elements of a work system, both within organizations and across organizational boundaries? [21]

*Enablers* - Depending on configurations in place at a given time in a given circumstance, including the type of innovation, what are the factors (e.g., relationship, trust, contract, intellectual property terms, customer participation, implementation strategies) that enable service innovation? [4, 19, 5]

*Capabilities* – What capabilities emerge in an ongoing process of dynamic capability building for effective service innovation? [1, 8, 26, 2]

<sup>1</sup> The configuration and importance of actors in the sourcing relationship may change over time or focus of the innovation. Initially, the key members in the triad may be the supplier, the buyer, and their customer [12], but, as the influence of the buyer diminishes, time passes, or for innovations focused on the service itself, the prominent triad roles in delivering service may emerge as manager, employee, and customer [17, 14], while roles in the service relationship may be clients, service providers (vendors) and end-users [16].

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