Competitive paper

INNOVATING IN BUSINESS NETWORKS:

THE ROLE OF LEVERAGING RESOURCES

Jan Ostendorf

j.w.ostendorf@web.de United Kingdom Lancaster University

Stefanos Mouzas

s.mouzas@lancaster.ac.uk United Kingdom Lancaster University

Ronika Chakrabarti

r.chakrabarti@lancaster.ac.uk United Kingdom Lancaster University

ABSTRACT

This study investigateshow companies innovate in their business networks. Byexamining the role of leveraging resources, we consider the product category of retail brand paintswithin the do-it-yourself (DIY) paint industry, where the role of innovation is pertinent to achieve differentiation and create value.Hence, this empirical study investigates innovation as a process of leveraging resources within business relationships. Research findings demonstrate that manufacturers and retailers jointly leverage resources in order to achieve innovative retailer brands. Nonetheless, companies need to carefully address theseresource leveragingprocesses and assess theiravailable options in developing innovations that enable sustainable growth.

Keywords: business relationships, innovation, resources, property rights.

INTRODUCTION

Business networks are complex webs of business relationships(Mouzas & Ford, 2009; Ford & Mouzas, 2010) in which exchanges are performed(Biggart & Delbridge, 2004). Through on-going exchange processes,business actors seek to create and capture value. (Lepak, Smith, & Taylor, 2007). The ability of businesses, however, to succeed in their endeavors to create and capture value appears to be inextricably linked with their effort to identify new and innovative exchange possibilities (Prabhu, Chandy, & Ellis, 2005). Innovation is a multi-faceted phenomenon whichcan be looked at from various angles.These includefactors that enable inventionstobecome innovations(Chandy, Hopstaken, Narasimhan, & Prabhu, 2005), determinants of innovation (Love & Roper, 1999) and consumer responses to innovation (Hauser, Tellis, & Griffin, 2006) amongst others. This studylooks at the link between innovation(Prabhu, Chandy, & Ellis, 2005) and leveraging of resources(Håkansson and Waluszewski, 2007)to examine how companies create innovative retail brand products.Brandsare oftenconsidered the vehicle to transport innovation to end-consumers. For a long time, industrial brands (those owned and managed by manufacturers) dominated the do-it-yourself (DIY) market,being the only brands to focus on new innovative product concepts. In recent years, however, retail brands have undergone rapid developments to become innovative and highly competitive brands.Previous research that has looked at this development confirms that retail brands are “universally accepted by consumers as a clear brand alternative, offering the same quality assurance and product innovation as leading brand manufacturers”(Burt, 2000, p. 886).

Notwithstanding the significance of this development, there is a lack of empirical evidence onhow companies leverage resources in order to innovate in retailbrands. This research attempts to address this gap by answering the following research questions: 1) Whatis the role of leveraging resourcesin the context of innovation? 2) Which parties are involved in the process of innovation for retail brands in business networks?3) What role do property rights play in the innovation process? To address these research questions, we develop a theoretical perspective thatconsiders three relevant aspects: First,we discuss the role of resources within business relationships and their influence on innovation. Second, we frame our research according toa processview of innovation; and third, we include research onproperty rights in order to address innovation ownership.

The structure of the paper is as follows. We present an overview of relevant literature,and introduce our empirical case, which illustratesthe role of innovation in retail brand development and the interactions among actors in carrying out this process. This is followed by introducing our theoretical model on the processes of innovation and analysis of the case, which reveals insightsabout the role of leveraging resources in the process of developing innovative retail brands within business relationships. The conclusion, managerial and theoretical implications for further research and limitations conclude the paper.

EXTANT LITERATURE

RESOURCES IN BUSINESS RELATIONSHIPS

The importance of understanding and managing business relationships is inevitably challenging for managers. Scholars have recognized that it is a challenge to understand the repercussions that emerge from companies being embedded in complex networks of business relationships (Håkansson, 1987; Håkansson & Snehota, 1995). Resources play a vital role in this context (Barney, 1991; Wernerfeld, 1984; Peteraf, 1993; Collis & Montgomery, 1995). Companies are not in total control of resources and have to consider other surrounding companies (Ford, 1997; Håkansson & Ford, 2002; Wilkinson & Young, 1994; Håkansson & Waluszewski, 2007)and "form relations with others that complement their own activities, skills and resources" (Wilkinson, Freytag, Young, & Chery, p. 9).

According to Hunt &Madhavaram (2006), resources are "tangible and intangible entities available to the firm that enable it to produce efficiently and effectively a market offering that has value for some market segment"(Hunt & Madhavaram, 2006, p. 69).Resources have an enabling capacity (Hunt, 1997) and companies can make use of different kinds of resources, including (1) financial, (2) physical, (3) legal, (4) human, (5) organizational, (6) informational, and(7) relational resources(Hunt & Madhavaram, 2006, pp. 69-76).Companies are embedded in complex business networks and need to make sense of their own resources as well as surrounding resources that are available in their business networks. In this study, we utilize the 4R model from Håkansson & Waluszewski(2002, 2007) in our theoretical model to analyze the variability of resources in use by actors during the process of innovation. Håkansson & Waluszewski(2002) present four resources, two that are technological (products & facilities) and two organizational (organisational units &organizational relationships) which are "combined with each other into different technological systems" (Håkansson & Waluszewski, 2007, p. 17). These resources are developed over time in relation to each other (Håkansson & Waluszewski, 2007). When analyzing business relationships, it is, therefore,not enough to look at snapshots or outcomes at certain points in time but to look at resources over time, in the context of interactions within business relationships (Håkansson & Snehota, 1989; Håkansson & Ford, 2002).It is relevant to look at actors, activities and resources (Håkansson 1987) and ways of utilizing resources in order to discuss innovation in the context of business relationships.

MULTIPLE PERSPECTIVES ON INNOVATION

It is possible to analyze innovation in multiple ways(Haupter, 2012). *"Innovations are products that are relevant to society, developed jointly with customers and partners and provide a live experience in everyday life" (Haupter, 2012, CEO Microsoft Germany)*.Haupter (2012)points out therelevance ofinnovation to society. Hefurther impliesthat innovation has a defined outcome but is a process over timewhichneeds to be worked for. According to Wilkinson & Young (2012, p.2), "innovation involves two kinds of processes: a) the emergence or evolution of new ideas, which may also be described as entrepreneurial or creative acts or opportunity recognition; and b) the development and exploitation of these new ideas".These processes are 'distinct' but 'interconnected'(Chandra, Styles, & Wilkinson, 2009; Chandra, Styles, & Wilkinson, 2012)and recognize that developing and exploiting ideas may lead to new ones.

The term innovation offersa multiplicity of interpretation and needs further clarification in terms of how we understand it. First, we argue that it is important to differentiate between invention and innovation. Companies might invent new technologies or services but never bring themto market. Therefore, the notion of bringing a product or service innovation to market is relevant. Unfortunately, research confirming why some products make it to market and others do not is sparse (Greenley & Bayrus, 1994; Scott Morton, 1999; Thölke, Hultink, & Robben, 2001). One reason for this could be that specific data on why some ideas are converted and others not is difficult to access and companies often have notrack records to support this. There might be multiple projects in a development stage that never make it to the public (Chandy, Hopstaken, Narasimhan, & Prabhu, 2005). Research confirms that there are specific factors that influence the conversion rate, which include expertise, the number of ideas and speed to market (Chandy, Hopstaken, Narasimhan, & Prabhu, 2005). In other words, companies with the "highest conversion ability are those that: 1) focus on a moderate number of ideas, of importance, in their areas of expertise, and 2) deliberate by adopting a moderate level of speed in product development" (Chandy, Hopstaken, Narasimhan, & Prabhu, 2005, p. 7).

An extensive amount of researchfurther discusses the term innovationin terms of its various aspects and domains. These include "consumer response to innovation, organizations and innovation, strategic market entry, prescriptions for product development and outcomes from innovation"(Hauser, Tellis, & Griffin, 2006, p. 2).This research is positioned in the area of business to business marketing, and thereforefocuses on the role of innovation in an inter-organizational context.With extant literatureoften looking at innovation through time, innovation is often researched as a discrete event, or a snapshot in time. Although this might be empirically convenient, scholars(see Damanpour, 1991 for example) have criticized this view as a "ubiquitous single-snapshot technique" (Avittal, 2000, p. 66). In this work, we follow the stream of scholars who view innovation as a process (Pettigrew, Woodman, & Cameron, 2001). Yadav, Phabhu&Chandy (2007) look at innovation from a process point of view and point out the need for including stagesof detection, development and deployment (Yadav, Prabhu, & Chandy, 2007). Detection is referring to the notion of creating and following ideas, which could lead to the arrival of a new technology (Kaplan, Murray, & Henderson, 2003). Development refers to the stage, in which the idea is converted into a technology or service that has the potentialtoenter the market(Yadav, Prabhu, & Chandy, 2007). In the deployment stage, the launched innovations are improved or new features are added(Slotegraaf, Moorman, & Inman, 2003; Tellis & Golder, 2001). "The distinction among detection, development, and deployment is useful in studying the process of innovation in a firm and is in line with calls to study innovation as a process that evolves over time" (Yadav, Prabhu, & Chandy, 2007, p. 86).In addition to viewing innovation as a process it is also important to consider how companies can protect their innovativeness. Therefore, the next section outlinesthe importance of property rights in the context of innovation.

PROPERTY RIGHTS AND INNOVATION

One of the most important challenges for companies is the protection of innovations. Property rights, therefore, play a vital role in the context of innovation. Scholars view property rights in the context of formal and informal mechanisms: "*Property rights represent a subset of the full range of possibilities by which a firm can protect its ideas, through formal mechanisms, e.g. patenting and copyright and informal mechanisms, e.g. product complexity, secrecy and lead time to market*" (Gooroochurn & Hanley, 2007, p. 1485; Veugelers & Cassiman, 1999; Cassiman & Veugelers, 2002). Differentiating between formal and informal mechanisms or "legal and strategic protection" (Cassiman & Veugelers, 2002, p. 1171)becomes important

due to the multiplicity of reasons in which companies might not be able to protect their innovations.This is applicable for tangible resources and intangible resources such as knowledge-based resources that take the form of intellectual assets, know-howand expertise(Mouzas & Ford, 2012).

Our understanding of property rights is congruent to Gooroochurn& Hanley (2007): "*Property rights are synonymous with appropriation*" (p. 1485). Previous research in the area of property rights and innovation confirms the importance of appropriation (Levin, Klevorick, Nelson, & Winter, 1987; Love & Roper, 1999; Veugelers & Cassiman, 1999; Kamien & Zang, 2000; Martin, 2002; Cassiman & Veugelers, 2002; Grünfeld, 2003).We posit that there are multiple ways to appropriate value that is created by introducing innovative products or services and that an inclusion of informal mechanisms is important.In order to link innovation to the role of resources and property rights, the next sectionpresents our theoretical model which serves as an analytical tool in the case analysis.

A FRAMEWORK FOR STUDYING INNOVATION IN BUSINESS NETWORKS

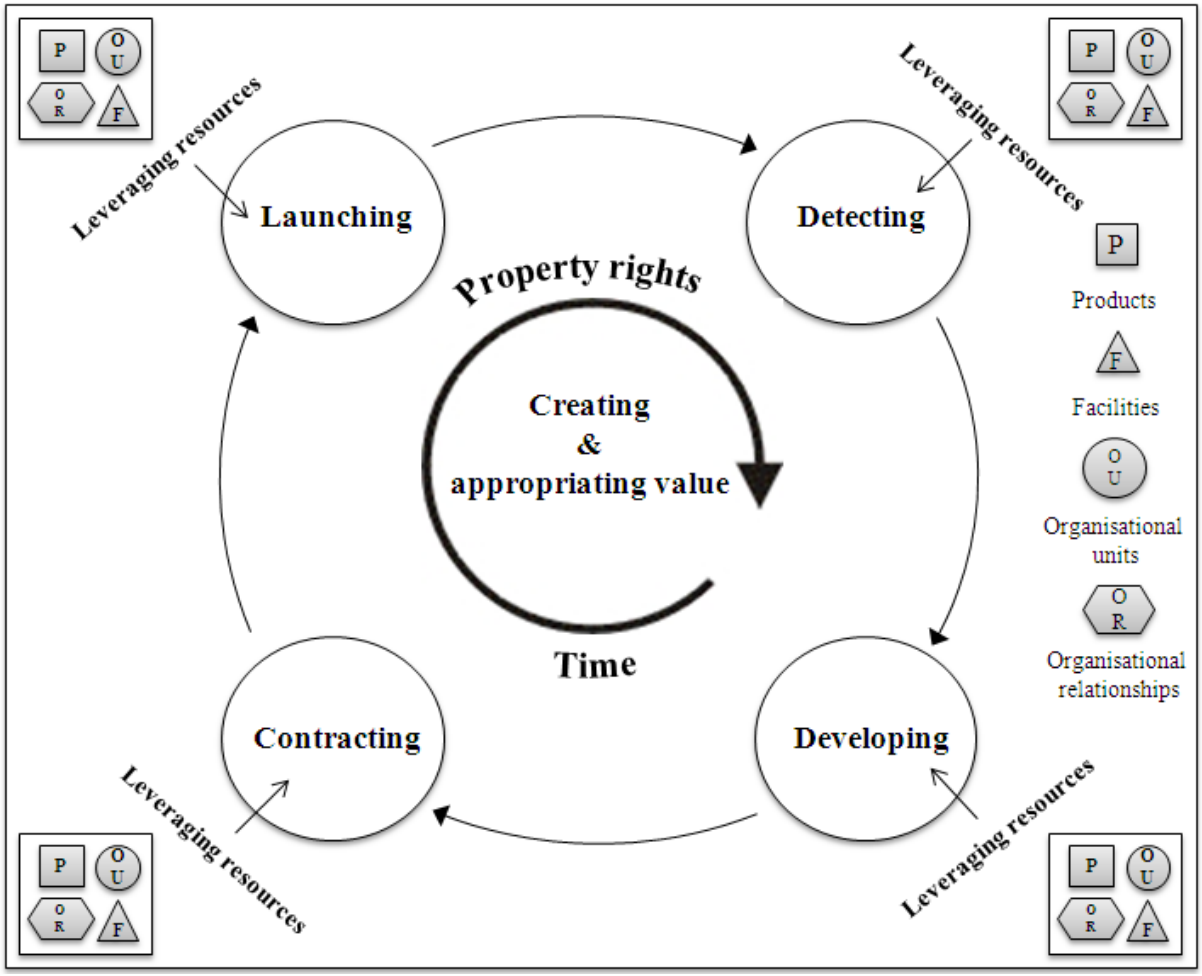
Ourframework for studying innovation in business networksis based on the assumption that innovation is an iterative process over time. The reason why we assume this is due to the embeddedness of businesses in complex business relationships(Möller & Halinen, 1999). We partly base our theoretical model on Yadav, Prabhu, &Chandy (2007), who argue thatinnovationisa process including various stages.Because the process is not straight forward but requires interaction and questioning of the status quo, we include four stages in our model: the detecting stage, the developing stage, the contracting stage and the launching stage. Detecting refers to the exploitation of new ideas and analysis of problem statements in order to achieve a consensus concerning further development that could lead to an innovation outcome.Developing refers to the process of further exploring ideas in order to create new knowledge and develop a product or service innovation. Contracting embodies multiple actions including the representation of the product or service to potential customers, the evaluation of those and the achievement of a final agreement concerning the product or service innovation. Launching involves the necessary preparations and allocation of resources for the launch. Yadav, Prabhu, & Chandy (2007) in their theoretical contribution embrace the neccessity of looking at innovation through a processal point of view but combine the development, evaluation and launch in the development phase. We argue that it is important to look atfactors like presentation format, evaluation criteria and ways to achieve an agreement prior to launching the product in a latter stage of contracting in order to understand the multiplicity of factors that influence the innovation process.

The framework for studying innovation in business networks allows us to examinehow companies' resources are leveraged in each of the stages. Because resources are limited and at the same time necessary to achieve desired outcomes, companies need to understand the leveraging they can accomblish with their own resources and how they can benefit from other companies' resources. Resources can take different forms and can be combined in multiple ways which is why we include the 4R model (Håkansson & Waluszewski, 2007, p. 17)in our theoretical framework. We analyze and look at the interplay of organizational units and organizational relationships, facilities and products in the innovation process.

In order to protect product or service innovation, property rights play a considerable role in our modeland can have touch points in various stages.Companies are aware of opportunities to protect ownership and assess the risks of losing property rights on innovation. In the context of retail brand development, property rights are preeminent as the ownership of the

brandpassed on to the retailer (with the retailer as owner and decision maker). Retail brand manufacturers, therefore, have to analyze how they can protect their developments.

Figure 1: A framework for analyzing innovation in business networks



Source: adapted from Håkansson & Waluszewski (2002)

THE RESEARCH PROCESS

We employ the case study research method to investigate the present phenomenon of innovation in business networks(Eisenhardt, 1989; Tsoukas, 1989; Pettigrew, Woodman, & Cameron, 2001; Orlikowski, 1992; Easton, 1995; Halinen & Törnoos, 2005; Yin, 2008). With the case study method being suitably fitted to the ontological choice of the network approach, data collection for the study took place between October 2011 and March 2012. The research focuses on a paint manufacturer called Paintco. Several meetings took place to understand the operations of the company and get detailed information about the structure of the company and unique selling propositions. Moreover, fifteen semi-structured interviews with senior staff of the company took place from November 2011 until February 2012.

In the context of the case that is presented in the next section (named the Innopaint case), we conducted interviews with Walter Winfield (head of research and development), Sven Smith (the managing director of international sales), Peter Norman(managing director of national sales), Harry Haupt (the managing director of company development) and Klaus

Koder(category manager) in order to achieve a holistic picture of the phenomenon from multiple company departments. We paid attention to base the research on multiple sources such as multiple e-mails (about 25), three company reports, 12 conference protocols and the secrecy agreement between the paint manufacturer and the chemical supplierand triangulated the data in order to achieve a chain of evidence, which increases the validity and reliability of research findings. In particular, we conducted a critical review of existing literature alongside data collection and constantly revisited the literature during this period. We analyzed archival records and 10 press releases of the paint manufacturer to improve triangulation. Data analysis was based on critical examination, evaluation, categorization, and recombination of the data collected to address the research phenomenon (Glaser & Strauss, 1967). The use of the conceptual framework was useful in analysing the rich empirical evidence and identifying relevant patterns.

The investigated case examines an innovation process in the category of retail brandpaints between the retailers Buystore and Weststore, the paint manufacturer Paintco and the chemical supplier Chemco. The retailers Buystore and Weststore operate in a major European DIY market, Uniland, with a population of 60 million inhabitants and a GDP of 1736 billion Euros(Dähne, 2011). Buystore is the market leader and Weststore is number three in terms of revenue and market share. Paintco, an international paint manufacturer,primarily focusing on the supply of retail brands, sells its products and services to DIY retailers in nine European countries. The following figure shows the retailers' number of stores and net turnover.

Figure 2: Retailer information

Retailer	Outlets	Net turnover (in million Euros)
Buystore	311	4500
Weststore	199	1000

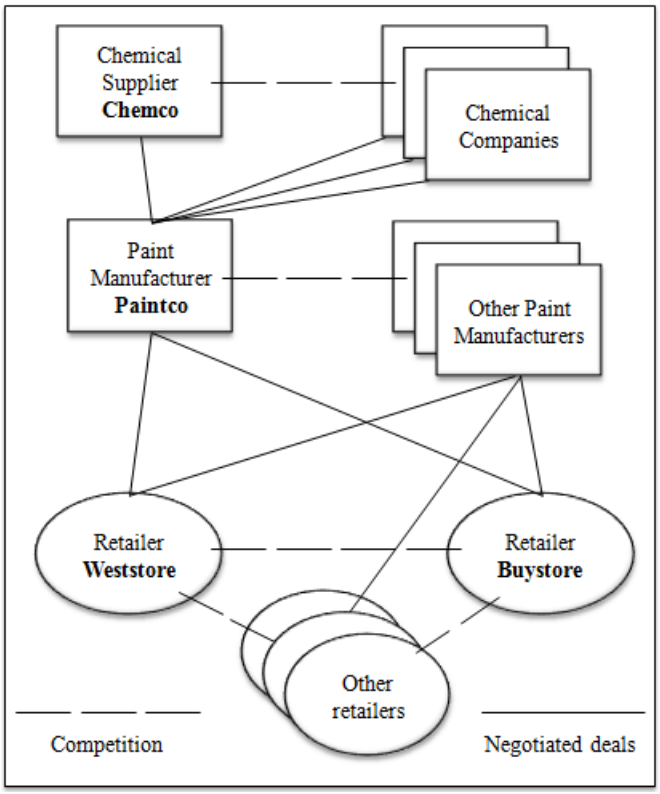
Source: (Dähne, 2011)

Chemco is a chemical supplier with revenues close to fifty billion Euros and is one of the biggest market players. The company operates in various fields and develops chemicals that are used in multiple segments and product ranges. Uniland is characterized by strong market concentration. Both retailers, due to their market position, are very attractive to paint manufacturers because manufacturers can supplya significant number of products in the category of retail brands.

THE INNOPAINT CASE

Thisempirical case adds to the understanding of how companies leverage their resources in order to innovate in the field of retail brands. The case describes a new product innovation for retail brand masonry paint, which is rain resistant after only seven minutes. The case gives insight about the detecting, the developing, contracting and launching process as well as responses to the innovation fromthe market. Figure 3 gives an overview about the chemical manufacturer-paint manufacturer- retailer network in this context:

Figure 3: Chemical Manufacturer – Paint Manufacturer – Retailer Network

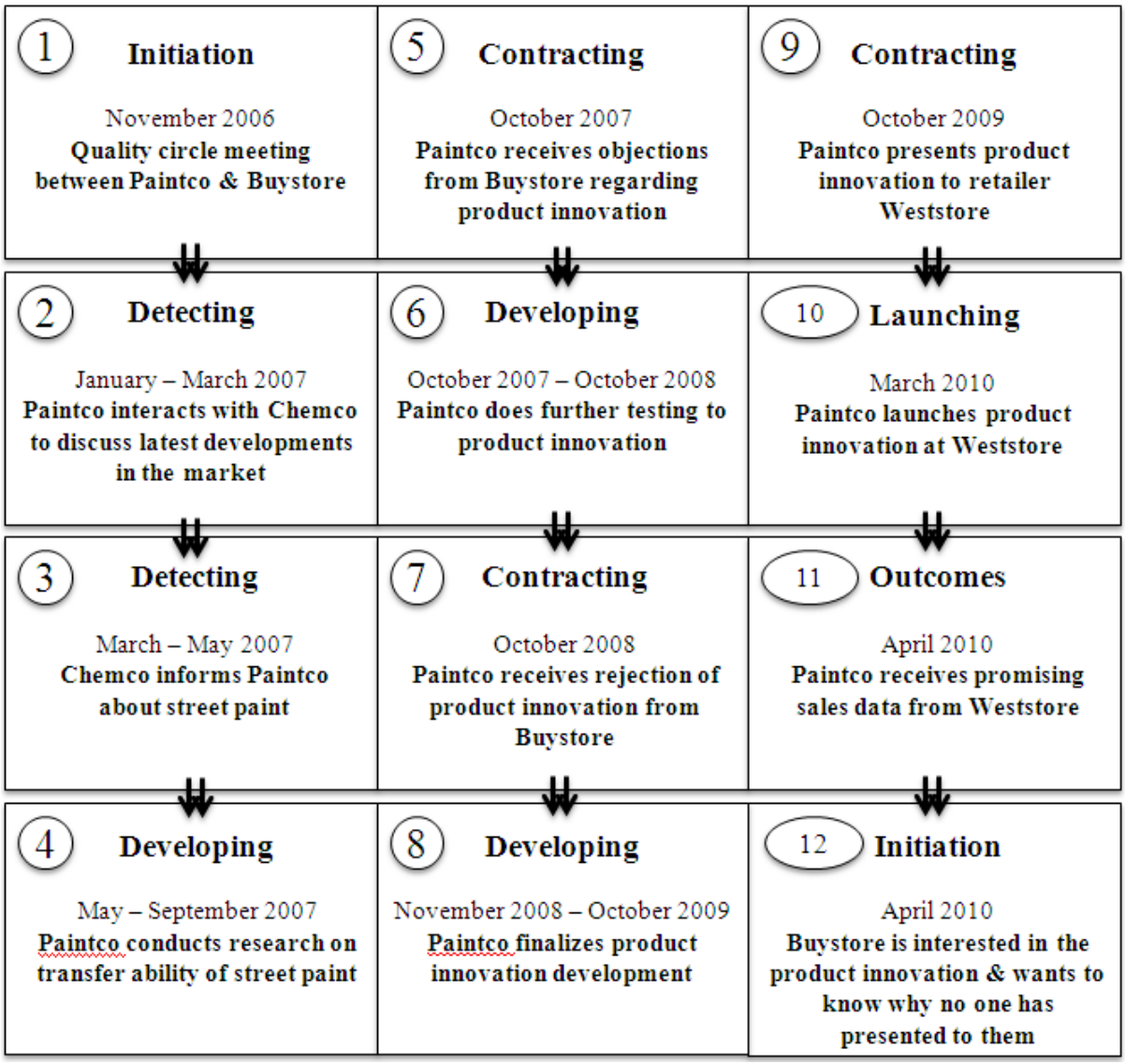


Paintco is an international paint manufacturer specialized in the production and management of retailer brands and is particularly interested in developing a) long term relationships with their retail partners, b) offering a large share of the paint category in order to manage the whole category (i.e., offer category management know-how), secure competitive prices to the retailer and c) presenting innovative product and service offerings to remain the preferred supplier to the retailers. Paintco has multiple suppliers for the chemical ingredients of their paint and work closely together withthe chemical supplier Chemco.

The Innopaint case took place between November 2006 and April 2010.In our case analysis, we present multipleepisodes showcasing the process of innovation.Within the developing stage, research and development of the paint and testing procedures required 80% of the personnel's full time work of a whole year (utilized over the whole period 2006 - 2010). Of this full time work, 50% was allocated to research activities and 50% to testing procedures. Paint products require extensive testing until the final product can be launched. Tests include surface evaluation under different light conditions, scrub resistance, drying characteristics, shock stability, product development under different weather conditions (simulations can test extreme weather conditions such as humidity, water spray on surface (including salt water tests) and different temperatures. The following figure 4 illustrates each of theseepisodes with

a short summary according to the timeline and the stagesoutlined in the innovation process according to our theoretical model.A detailed explanation of theevents then follows figure 4:

Figure 4: Steps in the development of the paint innovation



On November 8 2006, Mr. Winfield (Paintco'shead of research and development) and his team members met with Mr. Scotch (Buystore'sQ&A representative) and a representative from Buystore's test institute for a quality circle. The quality circle was a regular meeting, held every six to eight weeks (ongoing between 2001 and 2008), to discuss pertinent topics relating to product quality, customer demands, supply relationships etc. During the quality circle meeting on November 8, Mr. Scotch (Buystore'sQ&A representative) informed Mr. Winfield (Paintco'shead of research and development) about customer requests in the area of prospective paint applications. Various customers were facing problems with masonry paint that needed too long to dry and therefore could not be used in regions with higher rainfall probability.

Mr. Winfield (Paintco'shead of research and development), after his return, contacted Mr. Canton (key account manager of Chemco) in order to arrange a meeting to discuss the latest developments in quick dry chemicals in order to find out whether certain raw materials were available that could help with the specific type of masonry paint development. During this initial meeting, Mr. Winfield (Paintco'shead of research and development) informed Mr. Canton (key account manager of Chemco) about the inquiry but did not source information at that time that could assist his request further. Without any new knowledge, Paintco's team decided to conduct research independently between February and March 2007 on quick dry paints. Even though the first request did not provide any outcomes, the relationship betweenPaintcoand their chemical supplier is one where both parties interact on a regularly basis. One of the reasons for their frequent collaboration is that Chemco has approximately 1200 researchers in their team that Paintco seeks to make use of, coupled with extensive market knowledge that Paintco has which can aid in raw material development for on the other party.

On April 14, 2007, Mr. Canton (key account manager of Chemco) contacted Mr. Winfield (Paintco'shead of research and development) and informed him about a new a fast drying street paint that had just recently been developed. Paintco was interested in the product and asked for more information. On May 4 2007, Paintco received the information and conducted research on the transferability of the street paint to their masonry paints. They conducted research between May and September 2007. In September 2007, Paintco's research department achieved a break-through and managed to produce masonry paint that would be rain resistant seven minutes after application. Paintco's research team gave the specifics to the marketing and category management team to discuss product specifications and in order to be in a position where Paintco could present their new product to preferred retailer Buystore, who had initiated the request.

In October 2007, Mr. Scotch (Buystore'sQ&A representative), the initiator of the request, had parted ways with the company. This resulted in Paintco's team presenting the new product innovation to an unfamiliar buying team who voiced no interest in the product. Mr. Winfield (Paintco'shead of research and development) reminded the retailer about their earlier requests from Mr. Scotch (Buystore'sQ&A representative) but were still not able to convince the buying team to procure. Between October 2007 and October 2008, Paintco continued working to refine their early rain resistant masonry paint. The marketing and sales department continued to develop the product strategy including packaging, communication and pricing while the research department continued testing procedures.

In October 2008, Paintco presented the product to Buystore for a second time and still received no approval. In November 2008, they decided to target alternative retailers and were successful in winning another retailer in Uniland, called Weststore, to supply their whole category of retail brand paints. The early rain resistant paint received immediate approval and the retailer was keen to launch the product as fast as possible. Between the period of November 2008 and October 2009, Paintco finalized testing of the product and launched in March 2010.

In April 2010, post product launch, the buying team from the retailer Buystore sought contact with Paintco to make a complaint about the product launch with their competitor Weststore and demanded to know why they did not have the chance to decide whether or not they would launch the product in their stores prior to it being offered to an alternative retailer. Mr. Winfield (Paintco'shead of research and development) informed them that they had presented

the innovation to Buystore' buying team on two occasions and that the current buying team (as opposed to the team in 2010) did not want the launch of the product.

ANALYSIS OF EMPIRICAL FINDINGS

The case analysis begins by discussing the interactions between Chemco, Paintco, Buystore and Weststorein the business network during the process of innovation. We then use our theoretical framework to analyze the case and address the stages of innovation that actors engage in, discuss the way in which these companies leverage resources and secure ownership.

WHY CHEMCO, PAINTCO, WESTSTORE AND BUYSTORE INTERACT WITH EACH OTHER

Episodes between Chemco, Paintco, Buystore and Weststore have demonstrated cases where actors exhibit both dissimilar and congruent interests that are important to consider when understanding interaction across business relationships in the innovation process. Chemco, as raw material supplier, is interested in developing and selling innovative chemicals. In order to supply these, they need companies which test and research their chemicals in order to secure market acceptance. Chemical suppliers usually operate in terms of raw material specifications and not finished product specifications. This is whyPaintco is an important business partner for Chemco as they can inform them about needs and wants of end-consumers, make trial periods in the market to test the products and inform Chemco about possible adjustments that are necessary to improve the products.*"Paintco is close to the market, knows customer requirements and can steer the development of Chemco raw materials in a certain direction. They can translate market needs and wants into product specifications that the chemical suppliers can work with"(Paintco Head R&D, 2012).*

Paintcoattempts to develop and sell innovative retail brand paint concepts to retailers. They can only do this, however, if their raw material supply fits their demand. Therefore, they have an interest in working together with Chemco in order to define product specifications and invest resources in the best possible way. In order to achieve best possible results, Chemco and Paintco work together because their needs are interdependent.

Buystore and Weststore are retailers who have outlet stores and need suppliers that can handle supply, both in terms of complexity of the category (equating to almost 12500 articles per retailer) and frequency of supply (order and delivery within 48 hours). They need products that are innovative and serve end-consumer needs and wants to a very competitive price. Therefore, the retailer is an opportunity for large supply and a potent gate keeper of the consolidated DIY markets.

THE DIFFERENT STAGES IN THE INNOVATION PROCESS

Our findings confirm the need to look at the Innopaint case from a process point of view(Avittal, 2000; Pettigrew, Woodman, & Cameron, 2001; Yadav, Prabhu, & Chandy, 2007).With the overall process for innovation being multi-faceted and complex,we argue that a structural approach to make sense of its developments is important. Multiple factors influence the overall success in companies' attempts to innovate. Therefore, structuring the process in different stages appears to be important in order to make sense of developments throughout the process. This does not mean that the process is straight forward, meaning that companies go through the stages and then automatically innovate. Innovation happens through interaction in the business network which is in line with our view of employing the network approach.

In the detecting stage, a problem statement or generated ideas that are considered worth investigating, initiate the process for innovation. In the Innopaint case, the problem statement via a customer request about masonry paint started the process.Next, in the developing stage, companies use the ideas or problem statements from the detecting stage to innovate. In the Innopaint case, the development of a technology transfer to achieve a much faster drying time of the paint represents the product innovation. This stage is important for transforming ideas into finished products or services.

In our theoretical framework, we purposely separate the contracting stageinto multiple steps, which include the presentation, evaluation and agreement of negotiations. This is due to multiple steps being involved in the contracting process. The innovator, in this case Paintco, needs to present the masonry paint to the retailer Buystore.The retailer then has to assess the product and does an evaluation based on the presentation. The accountability of roles in the network (e.g. perceptions of the product innovation) can significantly influence the evaluation. In this case,Buystorehad objections against the product and did not see the value for their category. This is why we argue that a third element, negotiation, is relevant in the contracting stage. Negotiation considers the attempts made by actors to achieve a mutual agreement. Paintco tried to convince Buystore about the product and how end-consumers would benefit from the product, but they were not able to come to an agreement.The outcome may very well be a different one in other cases(Mouzas & Ford, 2006)but we argue that this element of contracting is important for the analysis. Farber &Bazerman (1987) confirm that it is worth looking at the "enduring puzzles in the analysis of bargaining, why there is ever disagreement in cases where agreement appears to be in the interest of both parties" (Farber & Bazerman, 1987, p. 347). In the Innopaint case, Buystore's buying team did not think the product innovation would add sufficient value to its category nor to replace other products, which counteracted a previously held inclination of agreement towards a specific type of product innovation.

Finally, the launch phase is the last stage of the framework in which companies have to deal with the launch of the product, its communication and presentation in stores. This stage requires analysis of particular actions that are taken in order to promote the innovation.

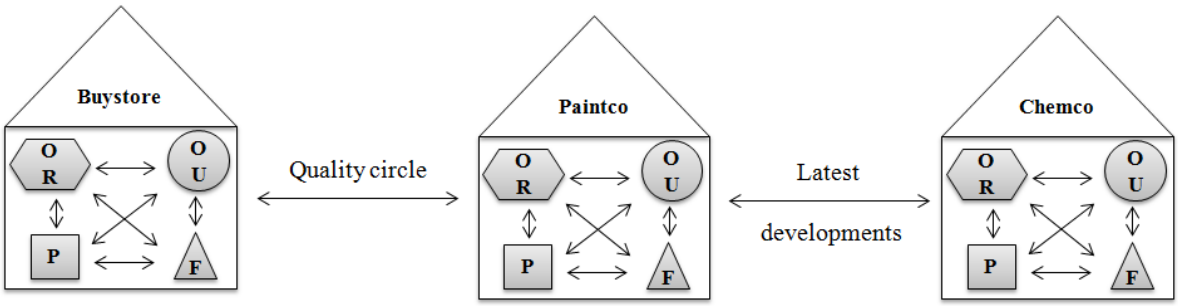
LEVERAGING RESOURCES IN THE INNOVATION PROCESS

In order to innovate, companies need to make decisions on how to leverage resources. Because companies do not act alone but are part of a bigger, complex network of business relationships (Håkansson & Snehota, 1989), they can leverage their own resources and leverage resources of partnered companies through business relationships. Furthermore, the interaction of dyads very often has an effect on other business relationships in the network andleveraging resources within one business relationship can have significant effects on other business relationships(Halinen, Salmi, & Havila, 1999). The Innopaint case confirms this argument as the launch of the innovation with Weststore initiated the buying team of Buystore to contact Paintco and ask why the product was not presented to them; hence they show interest in the product. How companies leveragetheir resources is especially important in consolidated markets with a limited number of retailers dominating most of the market because manufacturers have to differentiate themselves from the competition, innovate,and at the same time offer very competitive prices. *"The attractiveness of manufacturers for retailers is characterized by the ability to offer innovations, true innovations, which lead to an understanding of new market potential and a competitive advantage. This competitive advantage is the attractive element why retailers want to focus on long term relationships with a certain manufacturer"*(Head of business development Paintco, 2012). Innovation can

therefore enable positive image transfer and act as a tool to ensure long-term business relationships.

We now discuss resources that have been leveraged by actors in the Innopaint case and look at the different ways theyhave been utilized within stages. At the beginning of the process, in the detecting stage,Paintcoinitially interacted with Buystoreand Chemco (figure 5).

Figure 5: Quality circle & information about developments



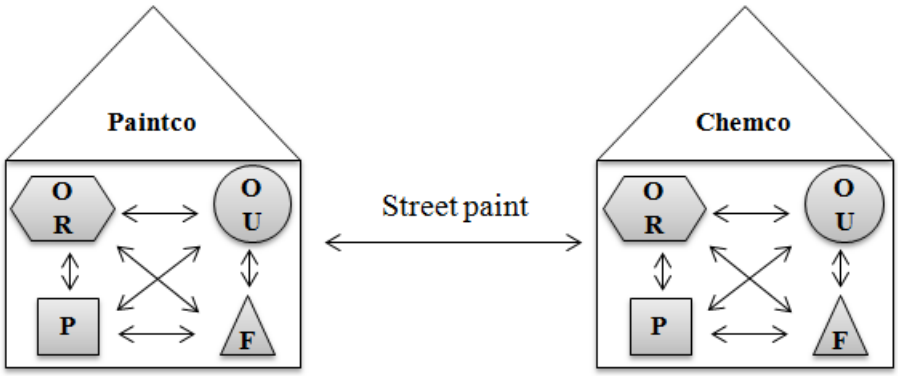
Source: Adapted from the 4R model (Håkansson & Waluszewski2002)

The quality circle which took place at Buystore's facilities initiated the process of innovation. Here we find that human resources are an important set of resources to leverage as Mr. Winfield (head of research and development), the representative of Buystore and staff from their laboratory attended these ongoing meetings to build inter-organizational relationships and enable a platform from which detection for innovation could take place.

As a second step, Mr. Winfield (head of research and development) contacted Mr. Canton (key account manager of Chemco) to discuss the demand for masonry paints and report on any recent developments. Resources that were being leveraged apart from human resources included organizational, in terms of units and fostering organizational relationships and knowledge of products or chemical technologies in the making that could help the customer request. "*I contacted our chemical supplier in order to find out whether any recent product developments would help us to advance the paint in terms of rain resistance but nothing useful was presented to me*" *(Paintco Head R&D, 2012).*

After contacting Chemco, Paintco leveraged their internal resources (organizational units) to conduct research in their test laboratories (facilities). The research did not lead to a technology development that could produce the paint. After several weeks, Mr. Canton (key account manager of Chemco) contacted Mr. Winfield (head of research and development; leveraging external resources of organizational unit and organizational relationships) to inform him about the street paint development (see figure 6). "*The presentation of the street paint gave the initial idea to see whether a certain technology for street paints could work with masonry paints. Chemco's help was very useful to get the development process started*" *(Paintco Head R&D, 2012).* The quote illustrates that Paintco could make use of Chemco's expertise in the area of chemical solutions and find a solution to start the development process in paint innovation. The major resource that Chemco had to offer was the research expertise at their plant in the form of organizational units, test laboratories and facilities alongside the support of the key account manager who invested resources into the business relationship with Paintco.

Figure 6: Internal research and street paint presentation

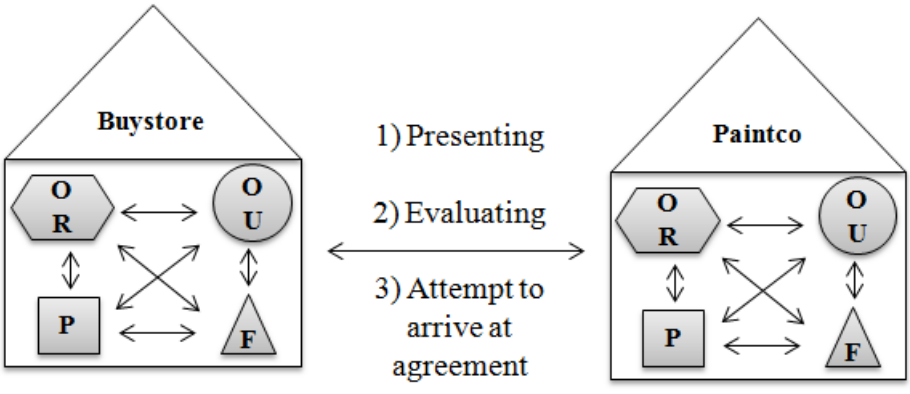


Source: adapted from the 4R model (Håkansson & Waluszewski2002)

After the detecting stage, the developing stage represents all actions that are concerned with the development of the product or service innovation. The goal is to develop a product or service that can be presented to possible customers, in this case, the retailer. In the developing stage, Paintco leveraged their resources to conduct research. Paintco conducted research with heavy utilization of their own resources, within their organizational units, in their facilities (test laboratories) and with existing products in order to achieve a technology transfer.

Next, the contracting stage consists of three different tasks: 1. presenting the product innovation, 2. evaluating the presented product and 3. negotiating to arrive at an agreement (see figure 7).

Figure 7: Contracting between Buystore and Paintco



Source: adapted from the 4R model (Håkansson & Waluszewski2002)

Buystore and Paintco interacted during the first presentation at Buystore's headquarter (facilities) where the head of Mr. Winfield (head of research and development) and his team presented the innovation to the buying team at Buystore with the aim to capitalize on the already established inter-organizational relationship. However, as Mr. Scotch (Buystore'sQ&A representative) had left Buystore at the time of the initial product

presentation, the offer was rejected. This episode is useful in showing the importance of leveraging human resources for achieving an agreement in the innovation process. If the perception of the value of a product innovation differs, it becomes more difficult to arrive at an agreement. "*It certainly is very important that the buyers see the value in the product and therefore support a launch, at least for a trial period. If understanding is not similar, it will be unlikely that we get an approval*"*(Paintco Head R&D, 2012).*

After the first presentation, Paintco decided to leverage further resources (organizational units in the form of HR, utilization of test laboratories and further product testing) to continue the development process.Therefore, the Innopaint case confirms that companies continue research if they are convinced by product innovations. Another reason for companies continuing the process is the fact that retailers handle innovation differently."*There are retailers who are pro-active, enforce innovation and want to make sure that innovations enter the market quickly and others who are more passive, reserved and concerned with the adaption of innovations" (Paintco Head R&D, 2012).*

In October 2008, Paintco tried to convince the buying team for a second time but again was not successful. One argument for being reserved about product innovations according to Mr. Norman(Paintco'smanaging director of national sales) is the risk of failure. "*It is very costly if product innovations are not successful and reputation will suffer*"*(Managing Director Sales Paintco, 2012).* This is especially true in the context of retail brands because in contrast to industrial brands, there is no spending on traditional communication channels to promote innovation. Retail brands are only communicated to the end consumers in the store and at the point of sale. This means that a convincing store and POS concept is the only way to promote innovation.

The launch stage of the process is also important to consider because both retailers and manufacturers need to make decisions about timing, positioning and the actual launch of innovations. Leveraging resources is very important becauseproducts need to be implemented into the category with old stock needing to be replacedfrom the shelves. Interaction plays an important role in this context also:"*Both retailer and manufacturer need to define the resources, personnel and timeframes in which who does what in order to increase the likeability of future success"(Head of business development Paintco, 2012).*

To summarize, the Innopaint case validates that researching innovation as a process is important due to the complexity surrounding the types of processes actors are involved in.Leveraging resources is a key element in the process.Time is another very important factor. Paintco invested almost 3.5 years into the project, from which viable solutions were an unknown. In this context, the continuation of the innovation process after rejection is worth mentioning. It shows how particular factors encourage companies not to stop or withdraw prematurely from the process. In the present case, Paintco was convinced by the quality and the approach that this innovation could solve a particular problem faced by several customers. The immediate approval by Weststore confirms the importance of both understanding and managing actors' perceptions. It further shows that companies should bepersistent with their innovations if they are convinced of their viability. *"They (Weststore) were fascinated by the product. They wanted to have the innovation as soon as possible because they thought that this could serve customer needs and wants and solve a problem which is more than present in the customer's mind" (Paintco Head R&D, 2012).*The next section discusses the importance of property rights in the innovation process.

PROPERTY RIGHTS IN THE CONTEXT OF RETAILER BRAND DEVELOPMENT

The Innopaint case demonstrates the need to differentiate between "legal and strategic protection" (Cassiman & Veugelers, 2002, p. 1171). Factors like "product complexity, secrecy and lead time to market" (Gooroochurn & Hanley, 2007, p. 1485) play a significant role in the protection of knowledge. Chemco and Paintcoagreed on maintaining a secrecy agreement to ensure a high level of discretion in the know-how and exchange of information related to the product innovation under detection. Furthermore, the complexity of the early rain resistant formula needed assurance of knowledgeprotection. The case also confirms that lead time to market is an important factor and one of the major reasons why Chemco had interest in working together with Paintco.

In terms of retail brands and property rights, manufacturers like Paintco have to face multiple challenges. They have to convince the retailer of being an innovative company. In order to do so, they need to have a good understanding of needs and wants of the end consumer. Only that way they are able to translate those needs and wants into specific product requirements with which the chemical supplier can work. The relationship between the chemical supplier(s) and the paint manufacturer therefore is highly important and offers significant benefits (e.g. Chemco has 1200 researchers and one of the most modern testing labs). The importance of understanding the role of resources (Barney, 1991; Wernerfeld, 1984; Peteraf, 1993; Collis & Montgomery, 1995; Håkansson & Ford, 2002; Wilkinson & Young, 1994) and the management of complex business relationships is therefore vital (Håkansson, 1987; Håkansson & Snehota, 1995).

In our theoretical framework we argue that property rights play a vital role over time in the whole innovation process. Our research confirms that there are two ways to deal with property rights, firstly by trying to protect what is protectable, for example formulas, and secondly, through secrecy agreements and exclusivity trial periods so that companies can work together on projects without having to worry about information leaks on the one hand, and profit from early market entry on the other. "Y*ou have to protect what you can and everything else will require a high level of speed to be faster than the competition*" *(Head of business development Paintco, 2012).*

For aspects such as paint formulas, we can confirm that property rights are synonymous to "appropriation" (Gooroochurn & Hanley, 2007) because long term success is greatly dependent on the ability to capture and protect the created value. The case also shows that contractual agreements, such as "*secrecy agreements are extremely important to protect openness in business relationships which then enable better performance in the future" (Paintco Head R&D, 2012).* The relationship between Chemco and Paintco is a good example because both companies maintained secrecy agreements and worked together jointly. Chemco can benefit by Paintco's flexibility and lead time to market to test new products. Paintco can benefit from Chemco's research expertise and possible trial periods of exclusive supply. *"We are the speed boat of all boats, we are close to the market and flexible enough to offer a platform to test new products for them (Chemco). Exclusivity is expensive, so the only way is to negotiate a trial period and be faster than the competition. When they (Paintco's competitors) get a new ingredient, we have to be one step ahead already"(Paintco Head R&D, 2012).*

In terms of the product innovation itself, the manufacturer is not obligated to give the formulas to the retailers unless the resources that are invested are paid by the retailer. *"It is often the case that retailers try to get the formulas but we try not to give them anything if possible" (Managing Director Sales Paintco, 2012).* In the Innopaint case, the research was solely paid for by Paintco, therefore the innovation could be protected.

CONCLUSION AND IMPLICATIONS

This research has investigatedinnovation by examining how companies leverageresources in business networks. The Innopaint case demonstrates that it is important to view innovation as a process. By deploying a theoretical framework for the study of innovation, we were able to confirm that companies need to address multiple factors throughout the process of innovation which include the leveraging of resources and the protection of ownership. Our findings demonstrate the importance of linking innovation and property rights.Depending on who is in possession of property rights, being innovative can pose a risk to companies.

In our empirical case, innovation plays a vital role in the development of retail brand concepts. Innovation acts as a key factor to stay ahead of competition. Furthermore, the research shows that innovation in complex business to business relationships, especially in consolidated markets, is an important area for research. Retailers expect a *"mission impossible – they want suppliers to be quality- innovative and price-leaders at the same time"(Paintco Head R&D, 2012)*. Being innovative according to our findings is important in consolidated markets as paint manufacturers that are perceived as being innovative have greater chances of establishing regular interactions and building long term business relationships.

THEORETICAL & MANAGERIAL IMPLICATIONS

Empirical findings demonstrate the critical importance of investigating innovation as amulti-stage process. The case study provides evidence that structuring the innovation process in multiple stages helps to understand the challenges faced but also the emerging opportunities in business networks. Building upon previous research (Chandy, Hopstaken, Narasimhan, & Prabhu, 2005; Yadav, Prabhu, & Chandy, 2007),we argue that the innovation process needs a separate contracting stage as presentation, evaluation and negotiation to arrive at an agreement are important factors to include in the process. It appears to be useful to look at these aspects because innovative products or services might be ready to enter the market but are not launched because perception of value is not congruent.

The consideration of property rights in the innovation process appears highly relevant. Property rights aresynonymous and pertinent to appropriation(Gooroochurn & Hanley, 2007) of innovation outcomes and, therefore, should be inextricably linked to each of the stages in the process.In this way, property rights matter in the detecting stage (companies have to find technologies they can use and protect), the developing stage (can companies protect the finished product?), the contracting stage (if manufacturers can convince retailers to launch the product, are they able to protect their developments?) and the launchstage (can other companies copy the innovation?).

From a managerial point of view, manufacturers in the DIY paint industry need tofocus on innovation, even though it might translate into losing certain innovations to the retailer. The short-term benefits of accessing additional resources and long term benefits of more sustained

business relationships are evident.Retailers need competent partners who focus on innovation but nevertheless have multiple manufacturers they can choose from. Therefore, manufacturers need to determine how they can position themselves in order to communicate their innovativeness to the retailer for retail brand products.Possibilities to achieve a competitive advantage can be found by finding ways to leverage resources optimally and analyze ways of accessing additional resources from surroundingpartners in the network.Managers need to understand that the innovation process is continuous and characterized by interaction; hence, a constant contribution in terms of innovating is necessary. Combining and recombining resources helps companies to innovate. Nonetheless, companies need to develop network insight (Mouzas & Ford, 2009)by paying attention to appropriation of value through property rights, theidiosyncratic perceptions of participating actors(Henneberg, Mouzas, & Naudé, 2006; Henneberg, Naudé, & Mouzas, 2010)and network constitution(Mouzas & Ford, 2009) in detectingthe rules and conventions with regard to developing new technologies, developing the product, contracting between actors and launching the product innovations.

Our research has furthermore shown that working together with suppliers, hence, leveraging resources towards the process, can be fruitful. Regular interactioncan ensure that monetary resources can be saved or even bundled with combined research expertise. Therefore, it is important to cater for business relationships that require constant interaction in order to satisfy end-consumer needs.

LIMITATIONS AND FURTHER RESEARCH

This study acts as a starting point to develop a better understanding of innovationas a process of leveraging resources in business networks. The Innopaint case provides an example of innovation development in a business network with a successful product launch at the end. The present study is limited to one product category, the category of retailer brand paints and one specific case. More empirical work is needed to prove the factors that influence the overall innovation process. Furthermore, our theoretical model needs further empirical testing.The dynamics of the network between the manufacturer, raw material supplier and retailer in the context of business relationships is interesting to research further because of the development of retail brands to become serious alternatives to traditional industrial brands. The theoretical link between property rights and innovation needs more attention in future research as this attention will help to understand how companies create and appropriate value in networks of relationships.

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