Inter-firm processes and innovation

This paper addresses the focus of the conference through its exploration of inter-firm influences on an organization's ability to learn. In particular, we study professional services firms (PSFs), who work closely with their clients in the co-production of innovation and learning. This introduces the notion of boundaries and control over knowledge renewal to the debate on innovation. In order to understand how organizations innovate, or renew knowledge, across boundaries we use a unit of analysis which frames how knowledge flows across boundaries. We define this unit as a 'networked process' drawing on the activity perspective on boundaries (Kogut and Zander, 1996). i.e. *actions* (e.g. client-meetings, creative writing and drawing) define *boundaries. The co-production of innovation in PSFs can most clearly be seen in their client engagement processes such as the creative briefing process. This represents an example of a networked process, where the client and the firm work in a networked arrangement through a series of knowledge renewal processes to innovate.*

We build on research which argues that the process of renewal requires organizations to *explore* and create new knowledge while also *exploiting* existing solutions (Crossan et al., 1999). These concepts suggest that firms: explore new opportunities outside their current knowledge domains whilst also exploiting and deepening existing knowledge stocks. Both of these knowledge renewal strategies are thought to exist within the boundaries of the firm (March, 1991). However, we argue that analysis needs to be extended beyond the boundaries of the firm when considering knowledge renewal.

We question the issues of *boundaries* and *control* come by studying networked processes in marketing agencies. These firms operate in fast moving, unpredictable external environments and draw on a range of knowledge assets within a network of suppliers, contractors, partners, agencies and freelance workers (Barley & Kunda, 2004). The focal boundaries for knowledge renewal, are the creative processes which take place within and across firm boundaries. This presents the challenge of *control* of the knowledge renewal processes. If the unit of analysis for renewal shifts to the value creation process, where several actors take part in the production of the output then the locus of control does not exist with any *one* stakeholder but it becomes a property of the relationships between the various stakeholders. We focus specifically on the influence of client on the knowledge renewal processes within marketing agencies (Fosstenlokken et al, 2003).

Firstly, we frame innovation as a process of knowledge renewal which we study in terms of output, or the tangible evidence of innovation seen in the creative products and services delivered to clients. (Nonaka, et al., 2008). These outputs involve the exploration or exploitation of knowledge and are usually produced in account or campaign teams which are temporary with a fluctuating membership (Tempest & Starkey, 2004).

Secondly, we draw upon data from PSFs to address the impact of inter-firm relationships, within the networked process, on innovation. Data were collected in two marketing agencies and comprise 62 in-depth interviews, 12 detailed observations of 'networked processes' and close examination of creative outputs. Data analysis identifies two overarching inter-firm relationships, i.e. collaborative and opportunistic which vary according to (i) the role of the client, (ii) the nature of client-engagement and (iii) the structural properties of the firm-client interaction. We also find a direct relationship between the type of client relationship and the type of learning. This juxtaposition allows us to identify four different types of Knowledge Renewal Relationships (KRRs): Regenerate, Refresh, Reinvent and Reuse, each characterised

by a specific client relationship and knowledge renewal focus. We find that cooperative cross-boundary relationships tend to facilitate both exploratory and exploitive learning whilst opportunistic client relationships tend to force the firm into a position of repeated exploitive learning. We consider both the theoretical and managerial implications from these case studies.

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