

Chapter 1: Innovating for trust

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In this book, we respond to the fundamental goal for any firm: to maintain and build customer trust. The title – *Innovating for Trust* – reflects trust as an antecedent to adoption and commercial success, as well as trust as an outcome of adoption and commercial success. In short, managers and innovators need to build trust into all activities of innovation; it is an omnipresent requirement.

The dynamic nature of most markets, the increasing speed of technological and societal change, and pressing societal and ecological challenges, implies it is difficult to find an industry not pressed by the seemingly constant need to innovate. Established companies need to innovate in order to keep their position in the market, ensure continued growth and increase firm value. Start-ups and entrepreneurs face tremendous challenges in entering, and if successful, staying in the market (see Part 7, this volume). Drucker's claim (1996, p. 7), 'You either innovate constantly or you die, and your innovation and entrepreneurship must be more than a flash of genius,' points to the need to make innovation thinking a systematic and integral part of organizations. In this book, we take on a multidisciplinary approach to innovation, and further argue that because innovation is always risky business, trust is a required premise and outcome of successfully designing innovative concepts, developing innovative offerings, and finally launching and commercializing innovations.

1.1 WHAT IS INNOVATION AND WHY IS IT SO DIFFICULT?

Innovation, in short, is the implementation of new ideas, products or processes (Hurley and Hult, 1998), or taking on a process perspective, ‘the generation, acceptance, and implementation of new ideas, processes, products or services’ (Thompson, 1965, p. 4). Successfully launching innovations requires recognizing where profitable change can be made and how, and to bring those to the market (Baumol, 2014, p. 10).

Such common definitions of innovation explicate why innovation is difficult. New ideas and inventions per se are not innovations. Innovations require implementation and take-up in the market. The innovation process as a journey where ideas progress from their conceptual level, via development and prototypes, to final innovations, can be very long and uncertain. The innovation process can be so long and fraught with so many uncertainties that we can only fully understand innovations backwards. No wonder popular and scholarly texts about innovations include the usual suspects when introducing companies behind successful innovations: Tesla, Google, Apple, Amazon and lately Airbnb and Uber. With hindsight it seems easy to pinpoint why these companies succeeded; like reverse engineering and extracting knowledge and information about successful innovations, yet only to a certain point, as reproducing the success of other innovations is likely futile.

Attempts to innovate are hence ultimately about forecasting what the future entails, and what consumers may want. Innovative capabilities or innovations skills consequently include creative change thinking; not primarily as an isolated act of a genius but as acts of picking up signals of change and opportunities, asking the right ‘what if’ and ‘why not’ questions, experimenting, networking and knowledge integration (often across domains) (Dyer et al., 2009). Innovation skills hence share a distinct core skill: being attentive and outward looking.

Being oriented towards markets, and observing and understanding what customers do and want, may produce ideas for change and innovation. Yet the future needs and preferences of consumers are veiled; and may in fact not yet exist: ‘innovations in the economic system

do not as a rule take place in such a way that first new wants arise spontaneously in consumers and the productive apparatus swings round through their pressure' (Schumpeter, 1934, p. 65). Rather consumers may learn to want new things (or services), or want things that are different from those they already have, once new offerings exist. Although decades have passed since Schumpeter's slightly sardonic remark, notable innovators such as Steve Jobs and co-founder of Sony, Akio Morita, echo Schumpeter:

Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. So, instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public. (Morita, in Kotler et al., 2005, p. 17

We think the Mac will sell zillions, but we didn't build Mac for anybody else. We built it for ourselves. We were the group of people who were going to judge whether it was great or not. We weren't going to go out and do market research. We just wanted to build the best thing we could build. (Jobs, in Sheff, 1985).

In David Sheff's interview with Jobs in 1985, Jobs comes across as a person with innate innovative skills. Jobs remarks about something going on, something big and good, which he is compelled to learn more about, and he envisages that people will soon be buying computers to link into communication networks. Jobs was a transformational leader; visionary, requiring employees to identify with and internalize his values and ideas, and working hard to achieve the visions and goals he had for Apple. In Part 6, we return to the importance of transformation leadership for forward thinking.

Whereas notable innovators such as Morita and Jobs have expressed doubts about the capabilities of consumers to know what they want before they experience it, a recurring theme and thesis in the literature, and in this book, is the move from a company-centric to a customer- and experience-centric company (see, e.g., Narver et al., 2004; Pine and Gilmore, 1999; Prahalad and Ramaswamy, 2002). Yet a customer-centric approach does not suggest companies can easily tap into a pool of innovative customer ideas. Customer- and experience-centric approaches rather broaden and systematize how organizations work by being outward looking towards perhaps the most important and ultimately make it or break it stakeholders: the end-users of new products and services. In Parts 4 and 5 of this book, we discuss how service design and co-creative approaches help companies become customer- and experience-centric as an integral part of strengthening innovativeness and the capacity to innovate. Whereas innovativeness concerns a company's 'openness to new ideas as an aspect of a firm's culture,' capacity to innovate refers to the ability 'to adopt or implement new ideas, processes, or products successfully' (Hurley and Hult, 1998, p. 44). In general, we will claim that market- or customer-oriented companies tend to be more successful when innovating services. In Part 7 we discuss what stops customers from changing to innovative products and services, and how barriers to adoption can be mitigated. Innovations require consumers to change the way they do things. As humans we are habitual beings; we seek to uphold the status quo, and innovative products and services entail tradeoffs relative to the existing and known alternatives. In short, adopting innovations comes with significant switching costs.

1.2 DIMENSIONS AND TYPES OF INNOVATIONS

The service-dominant logic (Vargo and Lusch, 2004) represents a key theoretical framework for this book. A service-centered approach integrates goods with services. The exchange of goods is no longer the core focus of marketing; instead, the service-dominant logic considers the exchange of intangibles, the skills, knowledge and processes involved; and customers'

roles in value co-creation (Vargo and Lusch, 2004; Vargo et al., 2008). This book has a clear but not exclusive emphasis on service innovation. Yet considering the paradigmatic shift towards a service-centric logic, the contributions offered in this book are relevant for innovation in general, without limiting the scope to either goods or services.

Even in a goods-dominant logic, understanding development, change and innovation is a compound endeavor; illustrated by Schumpeter's (1934) five cases of development: changes in product; method; markets; raw materials; and forms of organization. Francis and Bessant (2005) offer a similar account by pointing to the four P's of innovation: products; processes; positioning; and paradigms. Innovations in products encompass products as both goods and services. Innovations in processes concern transformation of the activities across an organization, and often across organizations, required for producing and delivering products. Product positioning innovations relate to marketing efforts with companies attempting to change how customers perceive their offering. Innovation in paradigm concerns replacing traditional belief systems with a new way of understanding and reframing business. Although not mentioned as an example by Francis and Bessant (2005), the move from a goods-centered to a service-dominant logic serves as an example of a new paradigm, requiring companies to actively reflect on how their business is tuned to a new reality. Likewise, the growing emphasis of service design and customer-centricity are examples of new paradigms.

To account for the less intangible nature of service offerings, consider den Hertog's (2000) four-dimensional conceptualization of service innovations. Den Hertog's model has relevance beyond the service industries, as a consequence of servicizing becoming increasingly important for all industries to differentiate their goods or service offerings. The first innovation dimension is the service concept, denoting innovations in what a company offers customers, and how. With the core offerings of services being intangible, den Hertog's conceptualization of the service concept symptomatically remains elusive. Our interpretation

of the service concept refers to the bundling of the knowledge, skills and processes required for offering new service experiences for end-users. The second innovation dimension is the design of the interface between a company and its customers or clients. Again, den Hertog appears to lack the vocabulary to systematically address the how's and what's of the interface. In this book, design thinking and service design (Part 4) describes customer journeys and touch points as means to systematically examine and innovate the service meeting points between organizations and end-users. The third innovation dimension is the service delivery system and organization. This dimension relates to the interface dimension, yet specifically refers to 'the internal organizational arrangements that have to be managed to allow service workers to perform their job properly, and to develop and offer innovative services' (den Hertog, 2000, p. 497). In this book, Part 6 discusses how to leverage the innovative organization, including how to empower and enable employees in the process. The fourth innovation dimension refers to technological options. Whereas service innovation is certainly possible without technological innovation, new technological options often facilitate service innovation, and even drive innovation. Online services and opportunities to track and measure real-time user data have clearly encouraged service innovation. In this book, we discuss self-service technologies in particular in Part 1.

Discussions of where innovations occur share a common trait: they all take on a holistic approach to innovation, attempting to identify core areas of innovation, and then how these areas interrelate. The same holistic approach is typical for service design (Part 4) and business model innovation (Part 3). Additionally, the importance of how organizations work, and the innovative capabilities of organizations are crucial (Part 6). Yet identifying dimensions and areas of innovation does not help us understand how innovations differ with regard to newness and breaks with the past and present. Next, we clarify two different sets of notions: radical versus incremental innovations and disruptive versus sustaining innovations.

1.2.1 Radical, Incremental, Sustaining and Disruptive Innovations

Scholars often use the notion of radicalness to denote the degree of newness of an innovation, and align radicalness closely with technology. Radical innovations clearly depart from existing practices and represent revolutionary and risky changes in technology, whereas incremental innovations refer to technological improvements and adjustments (Dewar and Dutton, 1986; Ettlie et al., 1984). Incremental innovations are hence extensions to existing processes, goods or services, while radical innovations represent hitherto nonexistent offerings, or offerings that require dramatic changes to existing markets (McDermott and O'Connor, 2002).

Incremental and radical innovations benefit from different types of firm competencies (Atuahene-Gima, 2005; see also Part 2, this volume). Competence exploitation refers to firms investing resources to refine existing innovation knowledge, skills and processes, aimed at efficiency of existing innovation activities. Competence exploration, on the other hand, refers to firms investing 'resources to acquire entirely new knowledge, skills and process,' and relates to novelty and experimentation (Atuahene-Gima, 2005, p. 62). Hence, whereas competence exploitation means investing effort in doing what a company already does only better, competence exploration is about acquiring the skills and resources to offer completely new products and services. The implicit hypotheses have also been confirmed: competence exploitation has been found to be positively related to incremental innovation performance and negatively related to radical innovation performance. Competence exploration has been found to be positively related to radical innovation performance and negatively related to incremental innovation performance (Atuahene-Gima, 2005). Research also suggests that customer orientation, measured as the degree to which companies invest efforts in learning about existing and future customer needs and experiences, are positively related to both

competence exploitation and exploration (Atuahene-Gima, 2005), and the launch of successful innovations (Grinstein, 2008; Narver et al., 2004).

From the discussion thus far, we can assume that most firms will continuously invest in incremental improvements of products and services. Radical innovations are rare, yet crucial, particularly in the long term. Recall also the strong emphasis of technological development as a premise for radical innovations. Yet a potential shortcoming of the notion of radical innovations is a naïve understanding of technology: underestimating the process of technological development. Christensen's (1997) suggested notions of disruptive versus sustaining innovations represent a compelling perspective, which takes into account a dynamic view of technological development. The core thesis is that innovations based on disruptive technologies are at first underperformers compared with established mainstream products. Yet they have features that are attractive to new customers, such as being cheaper, simpler, smaller and often more convenient to use. Eventually, as the underlying technology matures, disruptive innovations intersect with needs among the majority of consumers, and ultimately displace the mainstream products.

In Christensen's line of reasoning, the nature of disruptive innovations puts established companies in a difficult position. Incumbents will favor projects targeted at the existing needs of existing customers. Existing customers and the financial structure and organizational culture in existing value networks hold established companies captive:

The very decision-making and resource-allocation processes that are key to the success of established companies are the very processes that reject disruptive technologies: listening carefully to customers; tracking competitors' actions carefully; and investing resources to design and build higher-quality products that will yield greater profit. (Christensen, 1997, Introduction to part two).

Consequently, entrant firms have room for doing what does not make sense for incumbents. Conventional managerial practice and wisdom that makes sense in incumbents will typically prevent the downward mobility required in the initial phases of developing disruptive innovations.

The distinction between radical and incremental innovations, on the one hand, and disruptive and sustaining innovations, on the other hand, is not clear-cut. Christensen (1997) categorizes both incremental and radical innovations as sustaining innovations, that is, they improve performance, and mainstream customers recognize the innovations along well-known dimensions. Above, we described radical innovations as clear breaks with the present and as completely new offerings, and we may hence find it puzzling to consider radical innovations as sustaining innovations. But we should avoid the mistake of using radical and disruptive innovations as synonyms. Disruptive innovations have specific characteristics: a value proposition that is initially inferior to mainstream products, and hence usually also a lower price; they are initially not attractive for mainstream consumers; and they develop from niche products to mainstream products with time (Yu and Hang, 2010). Our point of departure which frees us from the typology of radical, incremental, disruptive and sustaining innovations is linked to the term customer value added (Sexton, 2009). We see any change in perceived customer value added as an innovation, which introduces the idea that an innovation can be negative, that is, reducing customer value added, and positive, that is, increases customer value added. By linking innovations to customer value, we make the customer, that is, the final recipient of the service, the judge. For any change (positive or negative) in customer value added as a function of firms' innovation, customers will respond by adopting or rejecting the new solution. Trust in the firm is an important element in this decision process.

1.3 INNOVATING FOR TRUST

Innovating is inherently about taking risks. Forecasting what future markets want, then developing new products, services and processes, and finally successfully launching innovations are processes where risk-taking characterizes all phases. Whereas we might expect risk to be higher in competence exploitation for radical innovations, risk is ever-present in all types of innovations. These inevitable and multifaceted risk challenges imply trust is a particularly relevant notion to consider for understanding innovation processes. In this book, we use Mayer et al.'s (1995) definition of trust as a point of departure: trust as the willingness to be vulnerable to another party's actions. In Chapter 2, we provide an overview of dominant perspectives on the concept of trust, highlighting the distinctions between trust, trustworthiness and distrust.

1.4 THE BOOK AND ITS PARTS

Figure 1.1 depicts the narrative of the book with its different parts. Each part has a leading question that we will address. Parts 3, 4, 5 and 6 share the same leading question, addressed from different perspectives. Each part encompasses a different aspect of innovating for trust, beginning with the notion of trust; via the importance of trust in future thinking, business model innovation, service design, co-creation, the innovative organization and self-service technologies; to finally, the importance of trust in commercializing innovations.

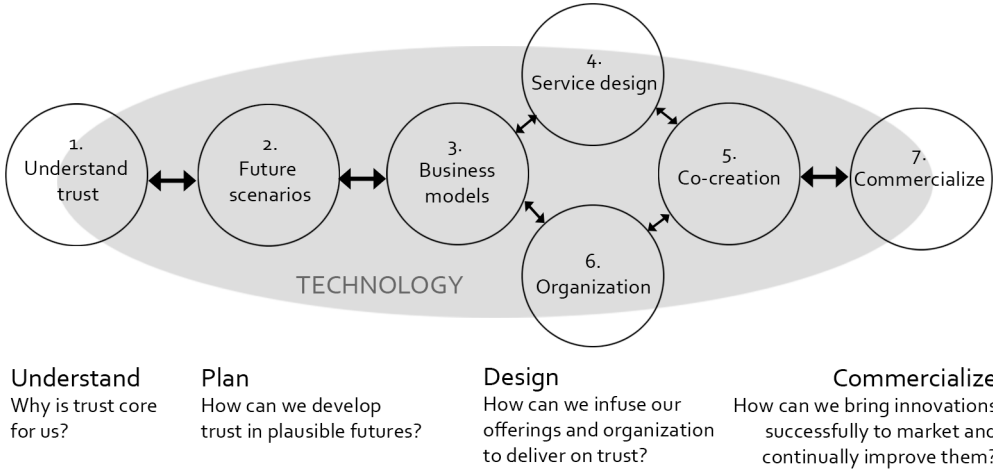


Figure 1.1: The innovation journey depicts the structure of the book with its different parts

1.4.1 Understand: Why is Trust Central for Us?

Siv Skard provides the introduction to Part 1: Trust and service innovation, with contributions by Herbjørn Nysveen and Skard. In Part 1 we introduce the notion of trust and discuss why trust is important in all stages of innovation processes. Trust is a prerequisite for innovation processes to take place between organizations, groups and individuals, and for innovations to be accepted among customers. Trust reflects an actor's willingness to be vulnerable to the actions of another party, and it is essential in situations that involve risk and uncertainty. Innovation processes are certainly characterized by substantial levels of risk and uncertainty, and hence we need to understand what characterizes trustful relationships among all relevant stakeholders throughout the innovation process. The antecedents to trustworthiness as a multifaceted construct are well known from the extant literature, and are often separated into the competence or ability, the benevolence and the integrity of the trustee. In Part 2 we also discuss trust and service innovation in the context of self-service technologies. Self-service technologies such as ATMs, online banking and self-service purchase and check-outs are increasingly used by companies. Many customers appreciate the flexibility and time-saving benefits of self-service technologies, and companies benefit from opportunities for cost reduction and improved customer satisfaction and loyalty. Yet these benefits are accompanied by potential risk and trust issues that follow from automation and lack of human contact in the transaction processes.

1.4.2 Plan: How Can We Develop Trust in Plausible Futures?

Daniel Grönquist provides the introduction to Part 2: Futures thinking, with contributions by Grönquist; Birgitte Yttri, Annita Fjukm and Tore Hillestad; and Camilla Tepfers. Part 2 introduces foresight and futures thinking as key approaches to see potential and future

customer needs in advance. Innovation is about anticipating the future, and foresight and futures thinking are methods that may help companies interpret signs of change and future business opportunities. Foresight as a method provides strategic guidance and vision for innovation and business models, triggers innovation by identifying future customer needs and technologies, and help companies identify possible disruptive innovations. Futures thinking is a foresight method that enhances the capacity of decision-makers to anticipate change, grasp opportunities and cope with threats. The chapters in Part 2 introduce the importance of trust in futures thinking; the use of scenarios for internal and external trust building; and how to create actionable images of the future to increase innovativeness.

1.4.3 Design: How Can We Infuse Our Offerings and Organization to Deliver on Trust?

Tina Saebi provides the introduction to Part 3: Building trust through business model innovation, with contributions by Saebi, Herbjørn Nysveen, Mohammad T. Hossain and Annita Fjuk; Per Egil Pedersen, Birgit Solem and Kristin Berntsen; Sveinung Jørgensen and Lars Jacob Tynes Pedersen. Trust building is not limited to the marketing and customer relations department of a company, and this part demonstrates how trust needs to be built into all activities of a company's business model in order for the company to be perceived as trustworthy by customers and other stakeholders. Yet, whereas trust building is thoroughly addressed in marketing and organizational research, the literature on business model innovation has paid little attention to the encompassing importance of trust. Part 3 starts by highlighting the important role of stakeholders in business model innovation, applying recent contributions from the service-dominant logic to develop a framework for extending a service system perspective to business model innovation. This framework is then used as a point of departure for discussing how companies can design innovative business models that enhance customers' and stakeholders' trust in the companies. Finally, this part explores the design of

sustainable business models, both in terms of responsibility-based and opportunity-based approaches to mitigate contemporary and complex sustainability problems.

Simon Clatworthy provides the introduction to Part 4: Service design, with contributions by Clatworthy; Ragnhild Halvorsrud and Knut Kvale; Mauricy Motta-Filho; Johan Blomkvist; Judith Gloppen, Annita Fjuk and Clatworthy. Part 4 starts by presenting the origins of design thinking as a customer-centered approach to innovation, aiming to design integrated and complete service solutions. Service design is design thinking applied to the service domain. Service design offers a comprehensive and practical framework for mapping customer experiences across customer journeys; hence enabling a design of services that takes into consideration the service offering as intended and as actually experienced. Customer experience is integral to service design thinking, and this part discusses the importance of customer experience for building brand trust. The development of strong brands is particularly important due to the intangible nature of service offerings. In line with the service-dominant logic, the brand's value is not a trait that can be identified in the company but in the relationship between the company and its customers. Each new interaction validates the customers' brand perceptions, strengthening or weakening their brand trust. This part then discusses service prototypes as tools and representations that build trust by depicting future service experience situations. Service prototypes enable companies to fail early and often, and hence to identify risk and failures early in a decision-making process. Finally, Part 4 discusses the role of service design leadership and offers insight into the implications of institutional changes towards a more customer- and service-centric business logic.

Marika Lüders provides the introduction to Part 5: Co-creating services, with contributions by Asbjørn Følstad; Lüders; Dimitra Chasanidou and Amela Karahasanović. The chapters in this part elaborate on the move from company-centric to customer-centric approaches: companies allegedly increasingly need to interact with customers, engage

customers, listen to them, design with customers and actively build a relationship with customers. Part 5 starts with a discussion of how the customer-centric approach links with co-creation of service value and co-creation of service design. The current emphasis on customers as co-creating services is so prominent that co-creation is part of what defines services and the move towards a service-dominant logic. Co-creation of service value concerns how the service experience is always co-created by the customer. In contrast, co-creation of service design concerns the actual involvement of end-users in the development of new or improved services. Part 5 explores the latter mode of co-creation by examining the use of crowdsourcing and online open innovation to involve an extended network of stakeholders in innovation work. We discuss trust implications from the perspective of the crowdsourcing company as trustee, as well as the perspective of participating customers as trustors.

Tore Hillestad provides the introduction to Part 6: The innovative organization, with contributions by Hillestad; William Brochs-Haukedal; and Therese Kobbeltvedt. Innovative organizations are characterized by adaptable cultural attributes that drive risk-taking behaviors, a willingness to experiment, fast decision-making and the ability to spot unique opportunities. By implication, this means innovative and adaptable organizations cannot allow their legacy to get in the way of future innovations and transformations. Yet conflicts and tensions between the past, the current and the future are unavoidable. In this context, trust is a mechanism to overcome these tensions by creating favorable conditions for innovative and experience-centric organizations. Experience- or customer-centric and innovative organizations are moreover characterized by transformational leadership that gives leeway to autonomous and competent employees. The role of the leadership is to develop and present compelling visions that employees will subsequently buy into and internalize. Part 6 ends by examining trust in information-based innovation from a cognitive regulatory-focus perspective. Innovation processes are characterized by a duality of analytical and experiential

mental processes and behavior, such as regulation, with potential consequences for trust and risk-taking. For example, whereas a promotion focus self-regulatory system is sensitive to gains, a prevention focus self-regulatory system is sensitive to losses. Balancing promotion focus and prevention focus is decisive as innovation work always involves risk-taking.

1.4.4 Commercialize: How Can We Bring Innovations Successfully to Market and Continually Improve Them?

Tor W. Andreassen provides the introduction to Part 7: Commercializing innovations, with contributions by Herbjørn Nysveen and Per Kristensson; Kristensson, Nysveen and Helge Thorbjørnsen; Thorbjørnsen; Andreassen, Line Lervik-Olsen and Seidali Kurtmollaiev. The adoption and diffusion of innovations is exceedingly hard to predict. In short, moving from initial innovative ideas to successful commercialized innovations is a high-risk endeavor. This part investigates commercializing innovations from four perspectives. First, the sources of resistance to adopt and strategies to overcome such resistance are discussed. Second, theories used to understand consumer-switching behavior are presented to offer insight into why consumers choose to stay with current products and services even when new innovations have entered the market. Third, we examine how innovations should be launched and communicated to the market. Fourth and finally, we discuss the economics of innovation to provide a better understanding of the underlying mechanisms related to adoption in order to improve return of innovations.

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