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INNOVATION OUTSOURCING: Reframing the Paradox through Service-Dominant Logic

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1. ABSTRACT

The aim of this aspiring theoretical research paper is to offer a new prospective on the currently contrasting opinions on the quality of the value produced in an outsourcing process, when the desired outcome can to any extent be considered "innovative". While outsourcing is usually outlined by strictly precise guidelines in contract form, those same restrictions seem to hamper innovative behaviour. As a result, a subtle paradox takes form, the "Innovation-Outsourcing paradox". Managers seeking innovation through outsourcing need to reflect on how effective it is to provide clear-cut instructions for something they are not experts in, whilst expecting added value as a result of that management.

This research uses the semi-systematic literature review methodology. Starting from describing and investigating the origins of the so called "Innovation-Outsourcing paradox", the paper will focus on the two main opposed sentiments of the paradox: will the innovative value gained by the client-firm be greater by giving more or less guidelines to the supplier-firm? The proposed answer is neither. To solve the paradox, the best solution is reframing it, so that it does not exist. The paper proposes a new, already widely accepted, theoretical framework, the Service-Dominant Logic, as a way of offering reconciliation between the two factions of the paradox.

By eliminating the paradox, client-firms and supplier-firms will be encouraged to ponder on their common goal of exchange of value. These considerations might have big implications in the advancement of the outsourcing industry, not only in regards with the relational behaviour intra parties (actor to actor), but also the quality and efficiency of innovation design.

2. INTRODUCTION

The academic literature covering firms' behaviours and interactions are rich in the use of tools like comparisons, dualities, and paradoxes. However, sometimes these are constructed by the authors, forced to fit a model that does not reflect reality. Identifying and analysing a paradox is a powerful method that can produce relevant consequences in improving productiveness and efficiency. Nonetheless, because of that same complexity that makes it a great tool to push the mind into discovering new solutions, new points of view, it is also easy for researchers to fall in the perpetually recurring rationale loop paradoxes are constrained by.

After reading various articles (Lewis, 2000; Chreim, 2005; Dittrich et al., 2006; O'Driscoll, 2008; Alvesson, 2011) on the paradoxical structures often found in marketing, management and business, I have decided to focus my attention on one paradox in particular: the Innovation-Outsourcing paradox.

This paradox was first identified by Aubert et al. (2015). It detects a conflict in management between client-firm and supplier-firm when the outsourced service is not of the pure manufacturing purpose but rather has a certain level of expectation for innovative advancements. More often than not, innovation is nowadays strictly related to the

Information Technology sphere of competencies. Whether in management systems, marketing strategies or product design, Information Technology overshadows all sectors of a modern organization. It is what gives firms the competitive advantage to maintain presence in the market. The ability not only to keep updated with the contemporary trends, but rather be the innovation leader is what differentiates successful firms from those who fail or simply stay afloat.

When a client company decided to outsource innovation "…*managers from the client-firm are pressured to ensure that the contract will be managed adequately and that the supplier-firm will keep its promises. This requires monitoring, clear measures, low uncertainty, and control… these managers are also told to offer flexibility, ample resources and adaptability to the supplier-firm to ensure innovation, which is a high uncertainty activity. Each set of criteria is sound when assessed in isolation. However, when paired, each set is at odds with the other one"* (Aubert et al., 2015).

As cited above, a paradox is created on how the contractual relationship between client-firm and supplier-firm should be managed in order to optimize the results. The identified underlying conflict stems between an apparent difference in the conditions needed to reach innovation and those needed to reach scalable productivity. Multiple solutions have been offered as an attempt to solve this paradox, however in my opinion there is another option that has not yet been analyzed.

This dissertation has the role of synthesizing multiple streams of knowledge into an idea that has yet to be explored, as far as the Innovation-Outsourcing paradox is concerned. It offers a solution to the paradox, not by focusing on the answers, but rather on the problem itself, as suggested by the guidelines theorized by Lewis (2000).

Our technologically driven society is incrementally focusing on the experience a product can provide rather than the product itself; it is focusing on value-in-use, rather than value-in-exchange. Firms need to always be one step ahead in order maintain market presence and in order to do that, it is important for managers to be prepared in dealing with various situational conflicts, dualities and paradoxes that come with being part of a network of co-dependency.

The practice of outsourcing innovation in Information Technology has had an exponential growth in the past decades, as firms move more and more towards specialization (Lacity et al., 2010). Nowadays firms specialized in solely providing Information Technology innovative designs and services are increasingly present. Even when considering a complex mega-corporation, it is rather uncommon, if not impossible to identify firms containing expert departments in every single sector needed to make the firm long-term successful. We live in a complex, co-dependent, co-creative society, which makes knowing every aspect of outsourcing, whether is it Information Technology innovation or something essential.

All firms outsource.

3. RESEARCH QUESTION

"Far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can always be made precise"

(Tukey, 1984)

This chapter introduces the research questions addressed in this dissertation and which area of interest they are derived from.

In our economy, innovation is one of the most important attributes for a company. Innovation comes in different shapes, forms, and levels (Poole and Van de Ven, 1989). It can be minimal and unnoticeable or extraordinary and memorable. The more unique, irreplaceable and unreplicable the value introduced is, the more it will bring growth, productivity, and profitability to the company. Innovation is essential for companies of all sizes, from start-ups to multinationals (Keimel et al., 2011; Tushman and Anderson, 1986). As pointed out by Heany, (1983) the concept of service/product innovation is not easy to define in a neatly concise statement, as its spectrum varies in size (minor to major) and functional area (design, engineering, distribution, marketing). An improvement of design for a product competing in a well-established market is a completely different degree of

innovation compared with introducing a comprehensively new product in a non-existing market: for example introducing the iPhone 8 (2017) after the iPhone 7 (2016) in the red ocean of the smartphone market versus introducing the first iPhone (2007) creating the blue ocean of an unknown marketspace. Through innovation companies carve out new positions in the existing market or manage to create new markets. In both red and blue ocean strategies (Kim and Mauborgne, 2004), having a certain degree of uniqueness helps companies sustain their established competitive position.

Companies compete to extract value from innovation by exploiting cooperation and competition dynamics to create organic advancements. Traditionally, companies engaged into zero-sum competition to extract value from innovation (Robbins Ra, 2012). However, in more recent times, particularly but not exclusively in the IT field, innovation has become a product of joint forces between various entities (Chesbrough, 2003). This exchange of ideas between a company and multiple external parties (outsourcers, suppliers, competitors, customers, etc.) creates a knowledgeable network (Amin, 2008). In fact, the literature confirms that firms are increasingly expanding beyond their specific industry boundaries as a way to accelerate the acquisition of distinct competencies, skills and strategies (Stephen L Vargo and Lusch, 2004). One of the ways this can be achieved is through outsourcing. Smogavec and Peljhan (2017) define outsourcing as a company gaining products and/or services tailored to its business processes, while similar companies might perform them internally.

Usually a manager will decide to outsource a task when the organizational internal resources lack a certain skill or expertise. Anything can be outsourced: from manufacturing to Information Technology, from the smallest detail to the whole product.

Past research has shown how outsourcing can create new important added value to the innovation process (Lawler, 2012). On one hand, outsourcing is generally associated with

a contract imposing precise guidelines and giving low flexibility (Lacity et al., 2010). On the other hand, innovation is associated with high uncertainty and high adaptability (Crossan and Apaydin, 2010; Damanpour, 1991). With these two conflicting elements under consideration, is there a solution to the how should a manager behave when outsourcing a service to a third party? The "Innovation-Outsourcing paradox" juxtaposes tight supervision against loose guidelines, efficiency in productivity against innovation achievements. Is formal contractual relationship the most effective when a company is seeking to reach innovation through its outsourcing network? Are those the only two available options or is there an approach that allows us to transcend the paradox? What are the industry's implications or the "Innovation-Outsourcing paradox"?

All of the questions above, led me to the one big key question addressed in this thesis represented in *Figure 1. Paradox Representation & Research Question*.

Is there a better solution proposition to address the "Innovation-Outsourcing paradox" as defined for the first time in management literature by Aubert et al. (2015)?

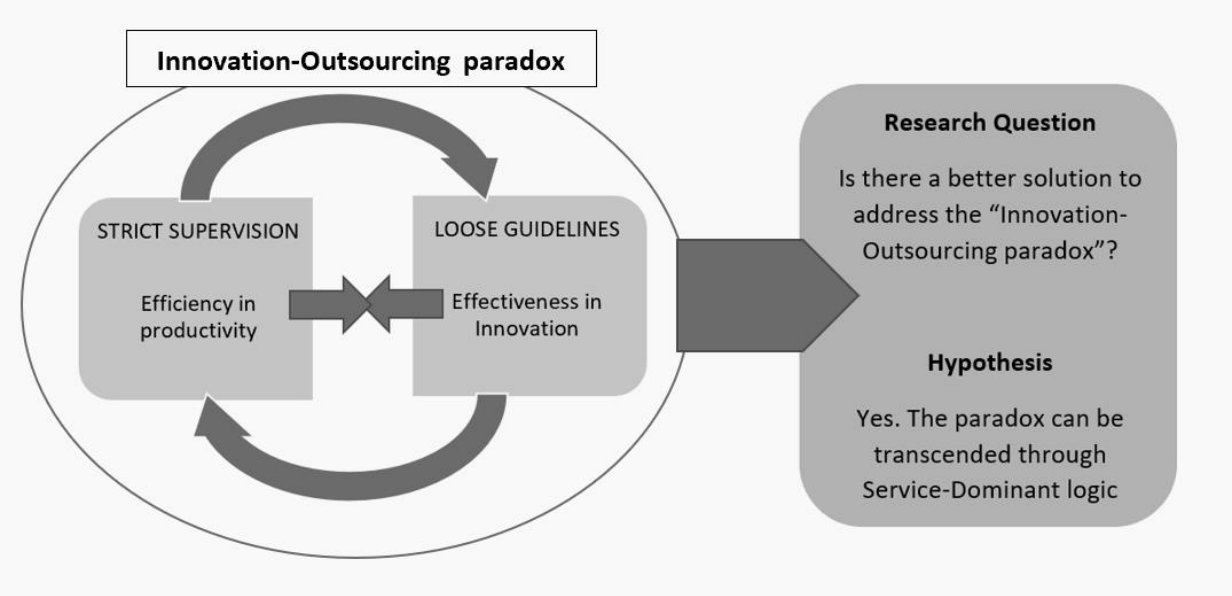

Figure 1. Paradox Representation & Research Question

4. METHODOLOGY

"Literature reviews can serve as a basis for knowledge development, create guidelines for policy and practice, provide evidence of an effect, and, if well conducted, have the capacity to engender new ideas and directions for a particular field"
(Snyder, 2019)

Due to the broad nature of analysing a paradox, the methodology approach I decided to use in this research paper is the "semi-systematic literature review" as theorized by Snyder (2019).

This kind of review usually addresses complex topics by analysing the existing literature from diverse and heterogeneous sources (Kara Schick-Makaroff et al., 2016). As a framework for all forms of study, literary reviews play a significant role. These will serve as the foundation for information creation, include policy and procedure recommendations, confirm an outcome and, if carried out correctly, have the potential to produce new

suggestions for a specific area of study. Literature reviews set the foundation for future study and theory. This synthesis adds value to the prior literatures by allowing the reader to consider the research topic under a different lens (McCormick et al., 2003).

Snyder (2019) identifies three most commonly used, distinct literature review variations: systematic, semi-systematic and integrative. They are summarized in *Figure 2. Literature reviews approaches (Snyder, 2019).* The semi-systematic literature review approach is the only one further discussed in the next paragraphs, as it is the methodology used in this research study.

Approach	Systematic	Semi-systematic	Integrative
Typical purpose	Synthesize and compare evidence	Overview research area and track development over time	Critique and synthesize
Research questions	Specific	Broad	Narrow or broad
Search strategy	Systematic	May or may not be systematic	Usually not systematic
Sample characteristics	Quantitative articles	Research articles	Research articles, books, and other published texts
Analysis and evaluation	Quantitative	Qualitative/quantitative	Qualitative
Examples of contribution	Evidence of effect	State of knowledge	Taxonomy or classification
	Inform policy and practice	Themes in literature	Theoretical model or framework
		Historical overview	
		Research agenda	
		Theoretical model	

Figure 2. Literature reviews approaches (Snyder, 2019)

The semi-systematic or narrative analysis approach is intended to cover subjects which have specific definitions and researched by various study groups from multiple fields, which impede a full systemic review method (Wong et al., 2013). In other words, it is actually not feasible to evaluate each particular article that may be important, so a new approach must be created. There are many examples of papers written in business publications using this method, such as McColl-Kennedy et al. (2012). In addition to the goal to summarize a subject, a semi-systemic analysis also discusses how research in a chosen area has developed over time or how a subject has changed through research traditions. The goal of the study is generally to recognize and explain all the potentially applicable research patterns that influence the topic examined, and to synthesize them with meta-narratives rather than by calculating the impact size (Wong et al., 2013). The latter provides some insight into dynamic

fields. Nonetheless, when addressing large topics and studies of various styles this approach assumes that the study methodology should be clear and should include an established analysis policy to determine whether the reasons for the decisions taken have been justified, both from the chosen subject and from the analytical point of view.

Several methods can be employed to analyze and synthesize the results of a semi-systematic review. These methodologies often have parallels with the approaches generally used in qualitative research. Theme and subject analysis, for example, is a frequently used methodology which can broadly be characterized as a tool for the detection, analysis and reporting of thematic data patterns (Braun and Clarke, 2006). While a qualitative analysis is typically followed by this type of review, there are exceptions. Borman and Dowling (2017) for instance used a semi-structured literature analysis method to create an innovative framework. Such an analysis is helpful to identify topics, scientific opinions or specific problems in a subject area or practice, or to classify components of a theoretical definition (Yang et al., 2007).

The systematic literature review approach is useful in this research paper as it allows identifying, synthesizing, and analysing multiple existing perspectives on the Innovation-Outsourcing paradox. The literal review and synthesis methodology can involve both qualitative and quantitative evidence, as well as both theoretical and empirical literature. In this case, because the nature of the paper aspires being theoretical with a hint on possible industry implications, only the former applies. The aim of the literary review methodology is to track the development and evolution of concepts, theories or ideas (Rodgers and Rowe, 2002).

The purpose is to summarize, interpret and synthetize diverse bodies of literature in order to add value by offering a fresh and critical theoretical framework as foundation. In fact, after explicating the normative assumptions of the new abstract foundation, the

synthesized conclusion has the unique purpose of defining new guidelines. In order to be more transparent, it is sometimes useful to contextualize the theoretical synthesis. This methodology may indeed incorporate context during the analysis and conclusions because it draws on diverse studies and approaches (Greenhalgh et al., 2005). Generally, the research question being analysed in the synthesis is a key factor in whether context should be included or not. This makes it the researcher's responsibility to decide how appropriate it would be to include examples in what is supposed to be a purely abstract, conceptual paper.

The aim of literature reviews methodology is generally to track the development and evolution of concepts, theories or ideas (Rodgers and Rowe, 2002). The research questions previously defined are abstract in nature, but nonetheless have practical applications for firm managers. It is important in any meta-theoretical research question to be easily transcendable to the real-life operational scenarios.

Snyder et al. (2016) notes that while systematic review is arguably the most accurate and rigorous way of gathering articles and experiments, since all relevant information is covered, this approach requires a narrow research proposition, which makes the approach not be feasible or even appropriate for a lot of concept areas. Here the semi-systematic analysis can be helpful, as it offers a methodology to confront wider conceptualizations. However, this approach is more challenging not only because of the logical effort involved, but also because of the lack of a standardized pathway to follow. In fact, while the systematic reviews approach is transparent and respects strict guidelines and requirements (Liberati et al., 2009), further tailored structure and adjustments are needed in a semi-systematic analysis according to the specific research question (Wong et al., 2013).

Nevertheless, despite the encouraged individuality of each research question explored through the semi-systematic literature review, the following steps have been

outlined by Snyder (2019). They have been derived from field experience based on numerous principles and guidelines that have been observed as efficient in past literary reviews.

The four guidelines are:

1. designing the review,
2. conducting the research,
3. research analysis,
4. synthesis writing.

Designing the review. I started by analysing all the different areas of interest implicitly or explicitly connected with the Innovation-Outsourcing paradox (outsourcing, innovation in Information Technology, value co-creation, paradox). From there, I identified the appropriate research questions that can be derived from it. After exposing the previously identified areas of interest thoroughly, I have given a summary of the main concepts composing the theoretical lenses through which I proposed a new solution to the paradox. Finally, I have given my personal recommendations and ideas on how my contribution could be useful to the industry, transcending from theory to practice. The following *Figure 3. Semi-systematic Literature Review DESIGN in the "Innovation-Outsourcing Paradox"* summarizes the study's design as guided by Snyder (2019) applied to the Innovation-Outsourcing paradox.

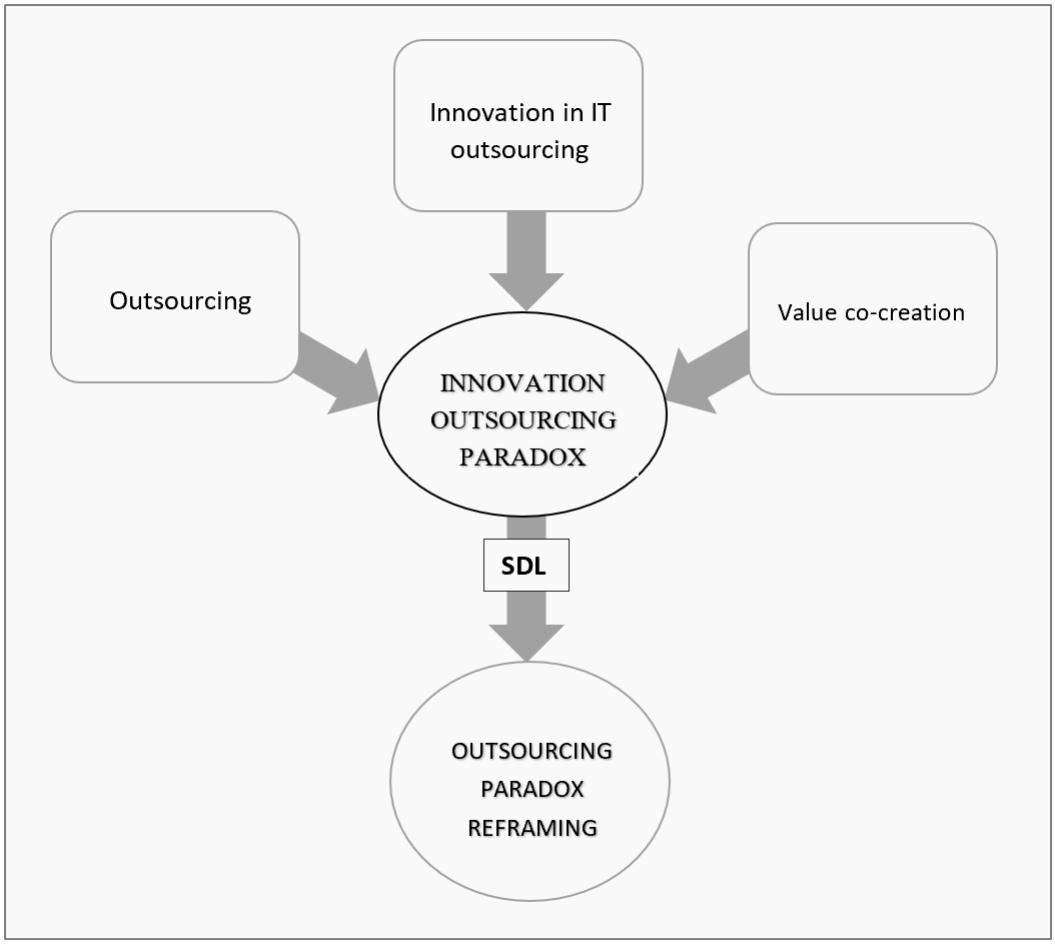

Figure 3. Semi-systematic Literature Review DESIGN in the "Innovation-Outsourcing Paradox"

Conducting the research. I have utilized the electronic databases of University of Ca Foscari of Venice, University of Hawai'i at Manoa, Research Gate and Google Scholar in this theoretical research. By using a combination of keywords such as "Innovation-Outsourcing paradox", "innovation in Information Technology outsourcing", "value in Information Technology outsourcing", "paradox value", etc., I have identified around more than 250 articles that might be useful to my analysis. After reading the abstract, introduction and conclusions of each paper, less than 10 were selected as essential to my research. By studying those in detail, I have exploited their reference areas to identify other relevant sources, bringing my personalized library to a total of 376 items (academic articles, books, and dissertations). Certain topic areas arguments are more abundant than others: for instance,

on Service Dominant Logic and value co-creation I have identified more than 100 relevant papers, while on the innovation in the Innovation-Outsourcing paradox less than 10.

Research analysis. After identifying a table of content, I studied and selected relevant information from each article connecting it to the next. This determines the strength of the backbone of the analysis of each argument and its useful to sustain the next. As mentioned in the previous chapter, certain topic areas were less ample than others (as the Innovation-Outsourcing paradox literature itself), however I had not attributed that as due to the relevance of the topic in the academic world, as more as to its complexity. I proceeded into carefully abstracting descriptive data from each article I deemed relevant to my thesis, cited the authors, and linked arguments with the goal of guiding the reader through my thought process.

Synthesis writing. Finally, I have proposed my novel contribution in the last chapters by referring to the previous chapters and connecting the thought-lines in one framework. I have utilized the summarizing figures I deemed helpful and implemented my own where possible, in order to give the literary critic a more efficient read.

5. KEY CONCEPTS AND DEFINITIONS

In order to give the reader the right tools to follow the reasonings in the subsequent chapters, I thought it would be appropriate defining certain key terms and concepts. Most researchers have to battle with the power of correct language usage in their publications. Often concepts are historically packed with meanings that changes throughout time and space. To avoid any confusion, after extensive research, the following are the most updated definitions of "outsourcing", "Innovation in Information Technology outsourcing", "Innovation-Outsourcing paradox".

5.1. Outsourcing

Outsourcing is a tool many companies benefit from. This practice has evolved throughout the years and with it, its definition has as well. Academics slightly modified the terminology in the attempt of not only being contemporary, but also anticipating future trends. Finding a timelessly comprehensive definition is an arduous task, because of the nature of the concept in itself, which is strictly tied to the evolution of business environment. This strategic instrument, used to acquire core areas expertise at competitive low costs, it is used by large and small companies alike (Gerbl et al., 2015). Outsourcing is a wildly endorsed

practice, conceptualized almost a century ago: when internal activities can be performed externally at a lower cost, it makes sense to purchase outsourcing service in the marketplace (Commons, 1931; Coase, 1937). Currently, companies have access to a wide array of tailored services more advantageous if contracted out, such as information management, bookkeeping, accounting, market research, selling, distribution, advertising, manufacturing, and design on a both short- and long-term contract basis.

Throughout time, academics have identified two types of outsourcing: traditional and strategic. The former takes place when the supplier company performs the same activities as the client company but better, faster and cheaper (Robins, 1992). The latter occurs when the client company broadens its views further than cutting costs only, to overall improving its performance value through contracting specialized assistance (Smogavec and Peljhan, 2017). Due to this conceptual update, researchers have defined outsourcing differently. According to Yang et al. (2007), it is an abbreviation of "outside resource using", which indicates value creation is happening from without, not within, the client company. However, this broad definition emphasizes delegating the responsibility externally. It creates a grey area which raises the question of distinguishing between outsourcing as "commissioning" a service, or as purchasing it.

The first tends towards seeing the results of outsourcing as complete property of the outsourcer (client company), while the second implies that part of the outcome belongs to some extent to the outsourcee (supplier company). Following these considerations, the role of a comprehensive, exhaustive, detailed contract surfaces. Schaaf (2004) defines outsourcing as a term representing the legal transfer (long-term or permanent) of activity, which used to be performed in-house, but is now outsourced. Certain scholars, like Kubr (2002) and Dolgui and Proth (2013) define outsourced services as commissioning traditionally internal activities with the goal or receiving partly finished or finished products/services; while others like Zhu et al. (2001) and Sun and Chen (2016) define it more broadly as a particular type of service relationship between two or more firms where certain

tasks are transferred from a group of employees to one of non-employees. However when a company purchases a product/service not meant to be internal in the first place due to structural lacks, innovation can arise from that partnership (Oshri et al., 2015).

For Linder (2004) outsourcing is a pure purchasing service. It happens when a firm purchases long term products or services which other companies would normally perform internally for themselves. The author then adds that there is no distinction between a company using external services to aid the production process and one contracting the whole manufacturing; both are purchasing the outsourcing products or services. The last and latest definition of outsourcing is that of Smogavec and Peljhan (2017). It will be the one this dissertation holds as foundation for further reasonings. It states the following:

"…outsourcing when a company gains products and/or services … exclusively adapted to that company's business procedures and similar companies might perform them in-house."

(Smogavec and Peljhan, 2017)

5.2. Innovation in Information Technology outsourcing

Outsourcing is a practice as old as trade itself (Tofts, 2012). On the other hand, Information Technology outsourcing has only had the last few decades to develop and evolve (Oshri et al., 2015). Initially, Information Technology and business operations outsourcing were solely used as a cost-cutting tool (Lacity and Hirschheim, 1993), but recently an increasing amount of client firms exploit Information Technology outsourcing as much more than that. By leveraging the professional capabilities of the supplier-company, the customer-company pursues value-added innovation (Quinn, 2000; Whitley and Willcocks, 2011).

Research shows that more and more firms depend on these partnerships with external outsourcing supplier-firms because they act as powerful substitutes for the internal creation of innovative tools and skills (Mol, 2005), or even innovative concepts and ideas (Weeks and Feeny, 2008). This practice knows no nationalist or societary boundaries as the best mixture between cost-effectiveness and quality tends to win the bid. It is not uncommon to find big corporations resorting to outsourcing innovation offshore Lewin et al. (2009), creating a worldwide competition for the most robust supply of advanced intellectual skills.

Following the dynamic developments of the outsourcing practice, academic research has lagged behind. Lacity et al.(2010) have concluded that "truly strategic reasons for outsourcing Information Technology have been relatively under-studied". Such observations evoke a more in-depth look into the connection between achieving innovation through the outsourcing practice (Lacity and Willcocks, 2014). Weeks and Feeny (2008) set outsourcing as able to achieve innovation on three distinct levels: Information Technology operational, business processes and strategic approach. Their model defines Information Technology operational innovations as "*developments that involve technology changes not impacting firm-specific business processes, … ways of exploiting Information Technology, which would in turn enable business improvements to be achieved*." (Weeks and Feeny, 2008)

Innovation can be progressive (Dewar and Dutton, 1986) or radical (Droege et al., 2009), exploitative or exploratory (Jansen et al., 2006). Innovation in Information Technology, B2B, is usually outlined as ways in which to, internally, improve the client-firm's efficiency in operations management or, externally, better offering value propositions to customers (Weeks and Feeny, 2008). While creativity can be accomplished through outsourcing, it depends on different behaviours adopted by the client-firm and the supplier-firm, which define the success of the partnership. *Figure 4. IT Innovation-Outsourcing "enablers" (Weeks & Feeny, 2008)* summarizes their classification on which of the aspects can enable or obstruct Information Technology innovation in outsourcing.

They have identified three so called “enablers” to keep in special consideration when analysing which factors might determine an effective and efficient integration of the innovative tool in the client-firm:

- Client enablers (technology skills, selective sourcing, etc.)

- Information Technology supplier enablers (process skills, industry scope)

- Relationship enablers (innovation governance, trust, etc.).

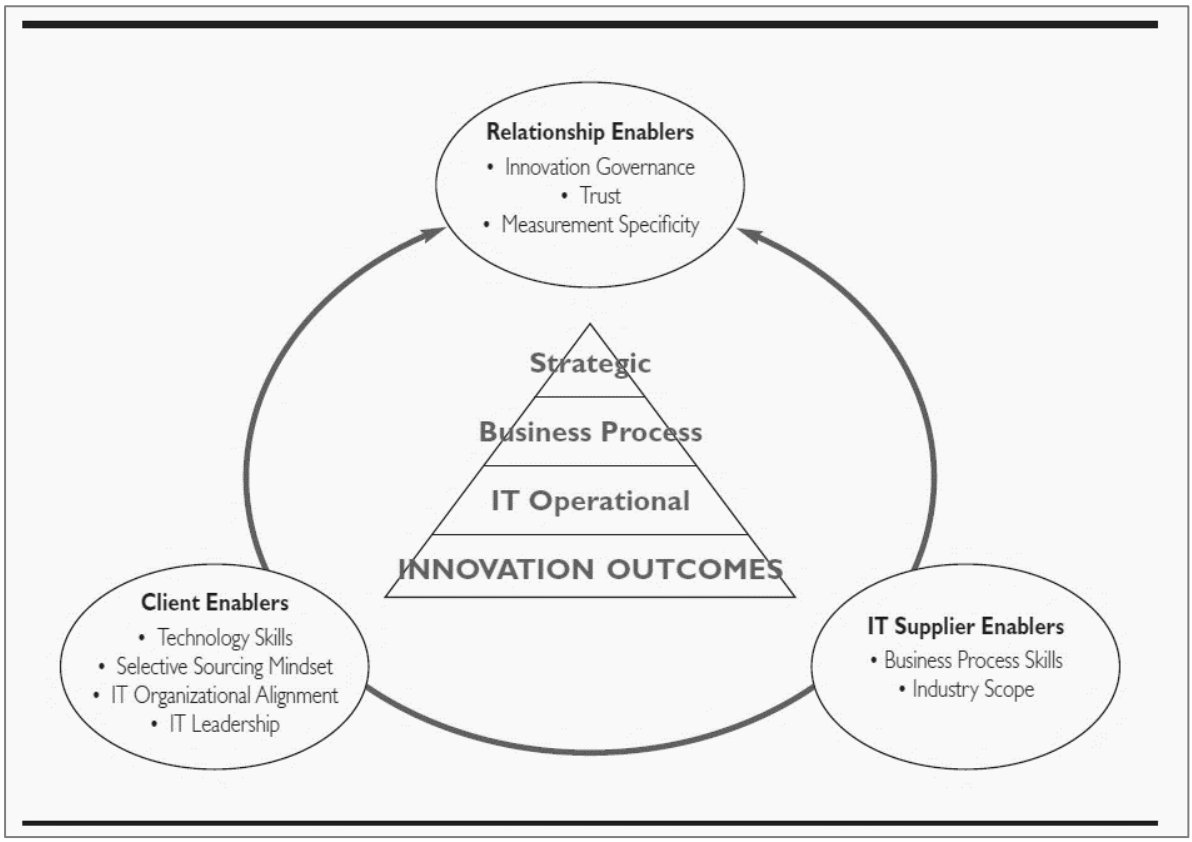

Figure 4. IT Innovation-Outsourcing "enablers" (Weeks & Feeny, 2008)

The results of this research revealed how, tactically, in order to achieve innovation thought Information Technology outsourcing only two enablers are essential to have:

- first the client-firm must adopt the appropriate operant resources (technical skills) matching those of the supplier-firm, in order to allow productive discussions of concepts that may lead to innovation;
- secondly, the relationship between client-firm and supplier firm must be embedded in trust in each other's governance of those operant resources.

The client-firm characteristics should be proficient in terms of an internal technological added value role which has not been outsourced: excellent technical competence, engagement with company, management leadership. The supplier-firm should be prepared to engage in the understanding the advancement of market systems surrounding the core technology. This way the supplier-firm will have greater opportunities for growth, as it is actively engaged with their client's industry (Oshri et al., 2015).

5.3. Innovation-Outsourcing paradox

Smith and Lewis (2011) argue that a paradox may be defined as the relationship between contradictory, but yet interconnected factors, simultaneously coexisting and persisting over time. This definition highlights two elements of a paradoxical situation: firstly, the underlying tensions derived from components that appear logical on an individual basis but inconsistent and even absurd once analysed together, and secondly, the conceptualization of a solution that embraces said tensions simultaneously.

In an economical setting, a paradox is created when two or more elements appear logical examined in isolation, but incompatible once juxtaposed. When looking at a firm setting, an exemplification of paradoxes would be the binary coexistence of

collaboration/competition, innovation/efficiency (Eisenhardt, 2000). Paradoxes are used by researchers in order to help identify answers to problems that are often hard to identify in the first place. Various methods, both positive and normative, have been theorized by scholars throughout publications in order to offer managers practical aid in exploiting and perhaps even solving the paradox. For instance, some researchers suggest simply accepting the existence of the paradox (Olin, 2003), others would argue to attempt resolving it by polarizing conflicting components into separate categories (Lewis, 2000; Smith and Lewis, 2011), others again, on the contrary, say to introduce innovative components providing a new perspective (Cuonzo, 2014). These ideas are not mutually exclusive, as multiple methodologies may be applied to explain the same paradox.

Paradoxes are essential to be identified when occurring. If not recognized, there is a risk of mismanagement of the problem by failing to have an unclouded vision and concentrating on a limited pressing matter. This may result in a negative spiral of effects, which will develop in furthering the conflicting elements even more. Being unable to identify the irony embedded in a paradox, by only focusing on exclusively one convenient point of view, often causes a deficiency in maximizing performance, hence, it can be damaging to the firm. As a consequence of misinterpretation, every solution proposition will intensify negatively the paradox rather than resolving it (Miller, 1992). As a consequence, paradoxes can lead to a certain degree of paralysis in the organization. Managers may find themselves torn by the complexity of the problem and eventually become reluctantly incapable of deciding concrete steps to solve the inefficiency (Lewis, 2000). However, this behaviour will impact negatively the firm as those are determining factors long-term (Smith et al., 2010). Paradoxes have been useful logical tools for the benefit of may scholarly researcher to propose a new perspective to organizational management conundrums, such as corporate governance (Sundaramurthy and Lewis, 2003), or control and autonomy in team innovation Gebert et al. (2010), or in corporate governance (exploration and exploration in innovation (Tushman and Anderson, 1986).

In its most general definition, a paradox is a set of contradictory elements that both exist and persist over time (Smith and Lewis, 2011). What Vitasek and Ledyard (2009) have found in their years of analysis is that, client companies aim at developing the “perfect” relationship by creating the “perfect” set of tasks for their outsourcing counterpart, giving as many detailed requirements, measurements, assessments as possible. Doing so results in an extensive, meticulous, and legally binding contract containing all the possible elements of how to get the job done.

However, this "perfect system" is often the exact cause of why the company fails in its outsourcing effort. That is because it is the *company's* perfect system, not one designed by the provider of the services. Companies choose to outsource to the experts and insist on defining strict boundaries for those same experts, forcing them into the inefficiency.

In the outsourcing discipline, a paradox may arise when the intention is to introduce a certain level of innovation. The following is the Innovation-Outsourcing paradox in the context of innovation as described by (Aubert et al., 2015), one of the very few authors to research this topic of interest. On the one hand, client-firm managers have the obligation of ensuring that the outsourcing contract is as detailed as possible in order to avoid complications and misunderstanding with the supplier-firm, which will fulfil its commitments. These activities require strict supervision, clear directions, and low uncertainty. On the opposite hand, the same client-firm managers are expected to practice flexibility, open directives, and allow high uncertainty in order to ensure innovation, which by definition is achieved through the use of loose normative backgrounds and prominent levels of creative uncertainty. When analysed individually, both these criteria the manager needs to respect are logical in achieving efficiency. Nevertheless, when analysed together, a conflict of coherence arises. The Innovation-Outsourcing paradox stems from the conflict client-firm and supplier-firm face when trying to implement their contract and at the same time allow creative space to optimize innovation.

6. INNOVATION-OUTSOURCING PARADOX ANALYSIS

"...successful outsourcing contracts are generally associated with low uncertainty, measurability, and extremely detailed contracts."
(Lacity, Khan 2010)

"... flexibility achievements of an outsourcing company depend mainly on the actions of the outsourcing company as well as initial actions given by its employer company"
(Scherrer-Rathje, Maike, 2013)

This chapter analyses every aspect, cause, and consequence of the Innovation-Outsourcing paradox. In order to realize how to transcend the paradox, a deep study of both sides of the conflict is essential.

In the Information Technology outsourcing process, outsourcing efficiency is optimized when precise instructions are given from the client-firm to the supplier-firm with the purpose of reaching a goal; however outsourcing innovation is reached when loose

guidelines are given from the client-firm to the supplier-firm with the purpose of creating added-value.

Studies have found a positive correlation between outsourcing and innovation (Marion G Sobol and Uday Apte, 1995; Agrawal et al., 2006; Liu et al., 2010). Outsourcing in general and Information Technology outsourcing in particular, have become a widely accepted strategic initiative for those companies wanting to be sustainably competitive, overall. rough a formal written agreement the relationship between the two or more parties as well as the expected outcomes (Miranda and Kavan, 2005). According to Lacity and Willcocks (2014) contract complexity is directly correlated to the outsourcing outcome, measured as cost, quality and responsiveness: the more detailed and precise the guidelines defined in the contract, the better the outcome.

6.1. Importance of Innovation

Innovation and adaptability have become core factors for prosperity, market competitiveness and financial performance for companies of all sizes, from start-ups to multinationals (Rosenbusch et al., 2011). The creation, growth, and implementation of new ideas in firms are essential parts of implementing innovation, no matter how small (Damanpour, 1991). Arguably, this is the main factor helping businesses to thrive and be profitable in the long term. Although innovation is historically performed by a handful of established corporations, it is increasingly important for firms to exchange innovations with other organisations leveraging competition and cooperation (Chesbrough, 2003). Innovation trends and the availability of new knowledge and skills are a constant push for firms to cooperate with strategic partners and suppliers. As mentioned in the previous chapter, this cooperation often manifests in client-firms relying on their partners and suppliers for sources of inspiration, exploiting the added knowledge and skills outsourced (Oshri et al., 2015). Amin (2008) supports this same concept through analysis, which also shows that an

organization does not invent alone, on the contrary, it takes advantage of the supply network to reach technological advancement through their expertise.

Nevertheless, not many studies have been done on innovation through outsourcing. Until now, research has focused mainly on the dependent variables of knowledge and skills to outsource (what) and its direct implications (why). Except in analysing interests of management, outsourcing has mainly been studied through the contractual and relational lens (Domberger and Jensen, 1997). This emphasis on the contract and the traditional contract outcomes is mirrored in the main results. In the available outsourcing literature, certain elements characterizing an effective outsourcing relationship contradict the classical concept of innovation, which is known to demand versatility and adaptability (Crossan and Apaydin, 2010).

For example, effective contracts for outsourcing are typically related to low volatility, measurability, and comprehensive contracts (Lacity et al., 2010). Innovation by outsourcing tends to be a paradox, as defined previously. While some aspects promote the concept of the outsourcing of production, the criteria for effective outsourcing tend to inhibit innovation. The Innovation-Outsourcing paradox was first defined in the literature by Vitasek and Ledyard (Vitasek and Ledyard, 2009). Their quantitative research extended on hundreds of companies over the span of two years. The paradox was discovered by looking at the relationship between the two agents. When considering expectations and actual results as well as transaction costs and remuneration, the contract is the one item both agents revert to. The contract shapes the direction in which the professional relationship will unfold, as it is a set of shared norms that will co-create a new instance of a service system or co-create a new type of service system (Maglio et al., 2009).

6.2. Tensions leading to the Innovation-Outsourcing paradox

Managers create various tailored systems and regulations in order to handle the dynamics of managing a firm and keeping its competency uptodate with its specific socio-economic network (Galbraith, 1974). Throughout the application of these rules and systems, occasionally, contradictory components arise leaving room for inefficiency as a result of conflicts. There are various conflicts a firm must repeatedly confront, if it wants to gain and maintain market presence. Arguably, part of what makes or breaks a firm's success is not only how well it solves these inefficiencies, but mainly identifying them in the first place. A few examples already discussed in literature are tensions between running existing business lines and developing new lines (Chesbrough, 2010), tensions between the ability of the employee to address challenges and systemic management of unexpected operations (Lacity and Willcocks, 2014) or the need for businesses to be globalized while contemporarily evolving locally (Lewis, 2000). Often, these tensions can be derived from a paradoxical foundation. Several challenging strategic circumstances have been explored in the form of paradoxes.

A paradox can be described as "contradictory yet interconnected elements which appear and persist simultaneously over time.' This description illustrates two components of paradoxicality: (1) the implicit internal inconsistencies — that is, individually the statements are logical yet conflicting when compared and (2) the tension-based solutions " (Smith and Lewis, 2011). A contradiction illustrates the mutual presence of two factors, which seem rational when taken into account in isolation but which, when viewed together, tend to be incompatible: cooperation and rivalry, customization and scalability, or pursuing change by promoting stability in the firm (Eisenhardt, 2000).

Theoretically, analysis of paradoxes leads to the creation of new approaches. Many approaches were proposed for the advancement of philosophy to handle the controversies. Critics may attempt to overcome the problem by either accepting the

paradox, or by identifying the elements of conflict and analyzing them, or applying different frameworks in order to give fresh insight (Poole and Van de Ven, 1989). These solutions are not necessarily mutually exclusive. Paradoxes should be properly identified, otherwise there is the possibility of mishandling the problem by focusing on the side of the spectrum. When the complexity is not well identified, managers tend to implement destructive patterns in which the main issue multiplies rather than being eliminated (Miller, 1992). In fact, these uncertainties may induce internal instability in the firm, as managers become reluctant to react (Lewis, 2000). Proper paradox management and satisfying competing expectations allow companies to survive over a long term (Smith et al., 2010). In this theoretical research the focus is set on offering a new way of looking at the paradox created, when a firm seeks innovation through an outsourcing partnership.

"…managers from the client-firm are pressured to ensure that the contract will be managed adequately and that the supplier-firm will keep its promises. This requires monitoring, clear measures, low uncertainty, and control… these managers are also told to offer flexibility, ample resources and adaptability to the supplier-firm to ensure innovation, which is a high uncertainty activity. Each set of criteria is sound when assessed in isolation. However, when paired, each set is at odds with the other one."

(Aubert et al., 2015)

6.3. Consequential Concepts in the Paradox

To understand the paradox, in the next chapters, I will discuss three main concepts as summarized in *Figure 5. Consequential concepts in the Innovation-Outsourcing Paradox*: innovation in outsourcing, outsourcing in innovation and their mutual relationship resulting in the Innovation-Outsourcing contradictory goals and processes.

Figure 5. Consequential concepts in the Innovation-Outsourcing Paradox

From before the industrial era, the fundamental ideal of a conventional innovation model has been to establish a connections among the firms in various fields and to leverage each other's skills and knowledge in order to identify the best new product (Kline and Rosenberg, 1986). Firms must stay agile, have abundant operant resources, decentralize, and share knowledge in order to promote inventive progress (Crossan and Apaydin, 2010). Information Technology has led to modern business strategies. The new approaches implement a greater focus on active communication and exchange between different actors (Tapscott and Williams, 2007). Traditionally these tools have been confirmed over and over as fundamental for reaching innovation within the same firm, however recent methods implementing external cooperation have become more popular. Information technology outsourcing is one of those methods by, not only creating critical strategic consequences in terms of acquiring knowledge, as well as implementing it in the client-firm (Aubert et al., 2015).

The value-added offered by firms is now at the center of a complex environment, where the creativity process involves all the stakeholders associated with the firm's network (cooperation with suppliers, consumers, and competitors). As a consequence, firms are not independent as relying exclusively on their internal abilities is insufficient under this open-source model. Exploiting the supplier-firms expertise gives the client-firm the edge required to achieve an effective innovation cycle (Deck, 2008). This model acknowledges that firms rely on domestic and international networks by actively combining internal and external

skills and knowledge in order to evolve and adapt (Christensen et al., 2005). In order to offer innovative value to the consumer, the firm itself must advance through innovation first. In the B2B relation that outsourcing represents, innovation is often the subject of the partnership. By resorting to outsourcing for example, production systems can be expanded and improved, or new products can be manufactured more efficiently, or the value propositions offered to the customers can be designed more effectively (Chesbrough, 2006). Overall innovation can be introduced.

A firm does not innovate by itself as during the industrial era, but rather leverages its network to acquire lacking expertise (Amin, 2008). Information technology innovation benefits from the diversity of contributors due to its often open-source format (Boudreau, 2011). Outsourcing has caused a shift in the way value is created and added towards the final consumer. This has encouraged the creation of value-centered networks, where firms have exposure as well as access to all skills and knowledge shared among the participants, hence facilitating innovation (Baloh et al., 2008). As a consequence, more and more specialized firms are being established, encouraging a movement towards further externalization of research and development outsourcing and cooperation (Gassmann et al., 2010). In the time of interconnectivity and customization, the firm has stopped being the singular agency independently investing and protecting its innovation cycle, but rather it is now a mutual effort of multiple actors (Liu et al., 2015).

Outsourcing literature has analyzed economic and operational performance. Outsourcing Information Technology literature guidelines say that outsourced projects will be quantifiable and require minimal ambiguity (Aubert and Rivard, 2016). Outsourcing performance is closely related to process standardization, measurability and project consistency (Wüllenweber et al., 2008). Within academic research, contracts have been identified as tools for security between client-firm and supplier-firm that may have conflicting goals. The contracts contain clauses specifying oversight, defense of property rights, resolution of disputes and operating procedures (Chen and Vargo, 2010). Generally,

these agreements include specific tasks and requirements (service level agreement), work assessments, reviews, performance analysis (Goo et al., 2009). Since the define guidelines laid out by the partners, typically in very specific detail, the result of these operations and the consequences correlated with breach of the contract, Service Level Agreements are a core aspect of the contract, especially in an Information Technology outsourcing relationship.

Changes in the contract's clauses have a negative impact on the trust and partnership loyalty (Goo et al., 2009). It indicates the contractual agreements more similar to a centralized manufacturing relation, rather than an innovation-driven partnership. Barthélemy and Quélin (2006) research concluded that client-firms will be inclined to strict monitoring of the supply-firm whenever the outsourced operations include sensitive information. Moreover around the same time, Willcocks et al. (2006) identified the challenges involved with outsourcing innovation, without substantial organizational resources and effective management in both the client-firm and supplier-firm. Beyond the contractual aspects, outsourcing was mostly studied with respect to the skills and knowledge needed and the necessary qualifications from both sides in order to effectively and efficiently implement the desired innovation.

According to the Goods-Dominant Logic framework, outsourcing a task meant compromising the client-firm's proprietary operant resources by sharing it with the supplier-firm, hence lowering the client-firm's technical advantage (Chen and Vargo, 2010). In fact, academic research bases a firm's innovative strength on its hard earned database skills and knowledge base, throughout all its years of existence (Hoecht and Trott, 2006). This means innovation must be internally generated, which makes outsourcing innovation as a liability, especially when it comes to Information Technology (Straub et al., 2008). It implies that even though outsourcing may deliver operational efficiencies, it may be at the cost of outsourced-related technological capabilities. It has been argued that this

phenomenon helps explaining why outsourcing and financial profits seem to be inversely correlated (Espino-Rodríguez and Padrón-Robaina, 2006).

6.4. The two opposing polarized cycles of the Paradox

Firms are under more strain to evolve than ever before. They are forced to make increasing use of outsourcing as a source of innovation to gain access to new external operant resources, which are indispensable to innovation 's success (Hoecht and Trott, 2006). As previously discussed, creativity itself requires adaptability, versatility and risk-taking, which would support a loose contractual outsourcing system. Simultaneously, these companies must handle outsourcing contracts effectively. To guarantee that commitments will be met and agreed goals achieved, supplier-firms must be monitored, which means a stringent contractual framework is put in place, on the other hand a more open relationship is needed to reach efficiency (Lawler, 2012).

Consequently, two reinforcing cycles have been identified, as shown in *Figure 6. Reinforcing cycles of the Innovation-Outsourcing Paradox (Aubert, 2015)* which perfectly summarize the variety of consequences and mechanisms derived from failing to recognize both implications of the paradox: focusing on outsourcing efficiency versus focusing on innovation success. Ideally, the goal is to achieve both, and in the next chapter I will elaborate on my proposition, which will allow the reinforcing cycles of the paradox to be broken, hence allowing it to transcend form a circular form to a linear form. It is important to notice the contraposition between the inherent concepts of innovation and productivity, loose and strict contractual management, effectiveness and efficiency. *Figure 6. Reinforcing cycles of the Innovation-Outsourcing Paradox (Aubert, 2015)* represents the relationship keep the frictions looping.

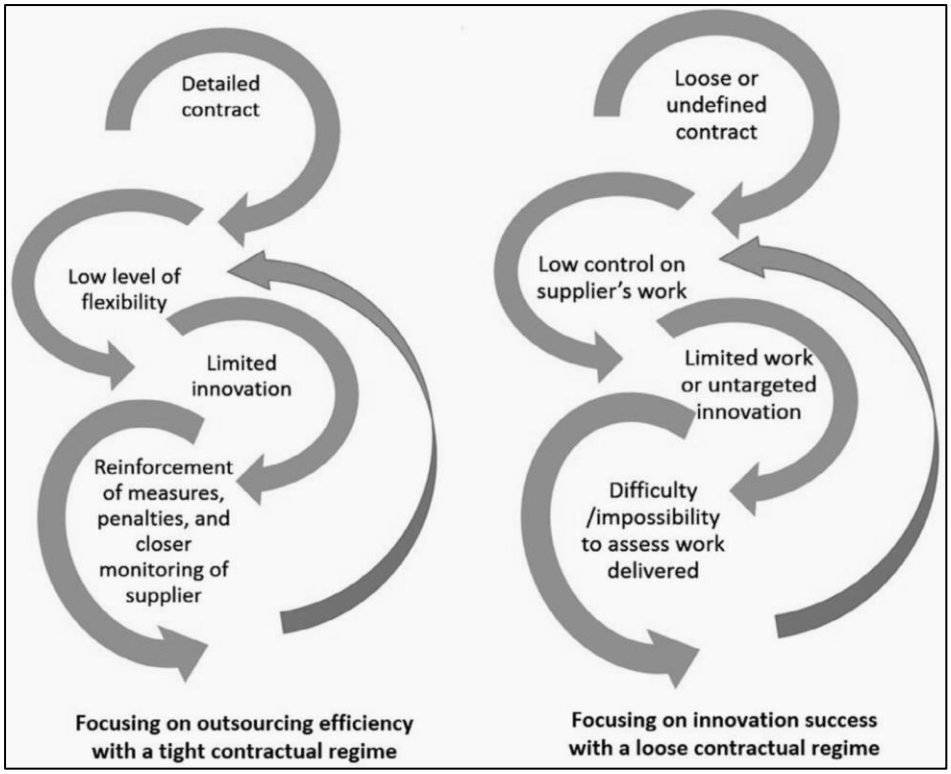

Figure 6. Reinforcing cycles of the Innovation-Outsourcing Paradox (Aubert, 2015)

From the first point of view, client-firm managers will provide detailed, clearly defined and measurable elements in the drafting of a contract to minimize moral hazards. If efficiency is the goal, it is expected to have transparency and precise guidelines in order to achieve systematic optimizations of the processes in place, as this allows the client-firm to reach its maximum potential by accessing economy of scale if necessary. Hence, the stringency of certain elements associated with successful outsourcing contracts in the previous literature is at odds with innovation, which is known to require flexibility, slack resources, and adaptability (Crossan and Apaydin, 2010; Damanpour, 1991). To control the supplier-firm, the client-firm is in possession of the necessary legal and financial knowledge. From the outset this will however restrict the supplier-firm's ability to take potentially critical innovation initiatives and risks as Service Level Agreements are required to be documented under a tight contractual framework and offer the supplier-firm a limited level of flexibility. The client-firm cannot easily deliver defined concepts, knowledge and expertise. The supplier-firm is unable to invent, limited by the terms of the deal. This could inevitably

lead to the client-firm's manager imposing penalties for not innovating and even closer monitoring of the contract. It reduces the supplier-firm's versatility and provides far less incentives for creativity.

On the other hand, the secondary point of view is that benefiting the innovative process. The contract will be specified only broadly and will give the supplier-firm the requisite margin for creativity by allowing various paths. It creates an atmosphere in which the work of the manufacturer has no influence. There can or cannot be advancement in projects, based on incentives and the background of the supplier-firm. The nature of the functionality and quality of the work that is done are very difficult for the client-firm to implement systemically because the contract is not well defined. This can lead to the client-firm missing sufficient corrective actions, given a poor supplier-firm output. In fact, the loose contract suggests that the supplier-firm's progress and outcomes cannot be properly tracked by the supplier-firm, which makes it even less likely for the supplier-firm to deliver in future. The assumption that the project is under supervision implies that the supplier-firm is more likely to pursue the requested innovation directed at the needs of the client-firm instead of the final customer's interests, even if the supplier performs and delivers the required work according to the loose guidelines in the contract. Recent research (Sun and Chen, 2016) has concluded that on the contrary, certain aspects of the contractual agreement must be loose in order to allow the outsourcer to innovate its creative process. This allows the desired value creation, which has a strong impact on the client-firm's satisfaction with the outsourcing outcomes, as well as on future collaborations. Therefore, managers should adopt appropriate practices for leveraging outsourcing, as part of a value-creating strategy for the firm.

The two strengthening intervals, based on closed and open contract parameters, seen, and discussed above, clarify truth, and illustrate the essence of the paradox. In addition, aside from the contract, administrators are to some degree using hierarchical control in both archetypes, relying on a variety of other considerations, for example the length of previous partnerships, the amount of previous agreements and effective contract experience. This

could influence all parties' mutual assessment and undermine the extreme enhancement of the above cycles to a certain degree.

Certain conflicting factors, such as the one party's own economic benefits from the proposed advancement, can nevertheless reinforce the tightening of the process. For example, if the supplier-firm assesses that the proposed invention has a great deal of interest for itself, it will make additional investments beyond those needed under the contract. The supplier-firm may not reveal the progress made in developing this innovation by means of its own investments because of the information asymmetry, such as those in strict contractual regimes, which will result in further enhanced underwriting and supervising in the already narrow legal agreements. In a flexible contracting arrangement, the supplier-firm can offer either a part of the product or the entire invention, but on terms and conditions at a price that significantly decreases consumer benefits.

In summary, even though the latter cycles in *Figure 6. Reinforcing cycles of the Innovation-Outsourcing Paradox (Aubert, 2015)* are representations of real contract control and consequent practice on the two archetypes of contractual systems, it is clear that the two components of the two contractual structures, which reflect an integral characteristic of a paradox, reinforce cycles in the field of innovation by externalization. In fact, the two reinforcing loops demonstrate that focusing solely on one side of the equation does not lead to effective progress by contract outsourcing. Concurrently, it is not manageable to concentrate on all aspects: terms and conditions are not tight and loose at the same time. The selection of an intermediate basis through the development of "neither to closed nor too loose" contracts could lead to all the inconveniences of both contractual regimes without providing the benefits desired. Based on the nature of the contract job, certain components will require prolonged revision. Therefore, more methods should be built to allow the problem to be handled by self-rectifying cycles.

Several ways to address paradoxical conditions were discussed in literature. These paths provide companies with realistic incentives to look for creative thinking through outsourcing. From a study perspective, each avenue offers the opportunity to explore the dynamic relationship between innovation and outsourcing more adequately. f-corrected loops are often used to reassert control and coordination (Sundaramurthy and Lewis, 2003). The tendency is to take into account both contradicting factors simultaneously. For example, in order to bring power and coordination together in the terms of the implementation of panels for organizational governance, Sundaramurthy and Lewis (2003) propose to simultaneously encourage spectrum of opinions and understanding of reality, which enables board members to monitor and collaborate at the same time. The three general ways to address paradoxes are to accept, confront or transcend (Poole and Van de Ven, 1989; Lewis, 2000). The first helps administrators to understand that there is a problem and that actions are stressed. Confrontations enable discussions to gain understanding and transcendence gives a way to think about the paradox of offering more complex solutions, often by reframing problems (Lewis, 2000). In the next chapter, a novel theoretical framework called Service-Dominant Logic will be discussed and summarized, with particular emphasis on what value means. By reflecting on how value is achieved through Service-Dominant Logic and applying Lewis' theory on resolving a paradox, the goal of this study is to show how the Innovation-Outsourcing paradox can be transcended and re-framed, so that it will cease being a risk management has to confront.

7. SOLVING A PARADOX

"Our natural tendency to try to resolve paradoxes,
build the ordinary out of the unusual, and streamline the odd"
(Farson, 1996)

In order to be able to transcend the Innovation-Outsourcing paradox, a deeper look into what a paradox is and where it is derived from, is instrumental to this thesis. It is important to recall and briefly summarize the methodology theorized by Lewis (2000) on how to resolve a paradox, as it will be utilized in reformulating the Innovation-Outsourcing paradox under the Service-Dominant Logic framework.

7.1. What is a Paradox

As mentioned in the previous chapters, a generally accepted definition of paradox is that of Smith and Lewis (2011), who suggest that a paradox is a relationship between opposing, but interrelated, variables that co-exist at the same time and persist over time. This interpretation illustrates two paradoxical elements: firstly, the fundamental tensions arising

from independent, yet also nonsensical, components which are rational until evaluated together, and secondly, the conceptualization of a solution that simultaneously covers these tensions. Contradictory yet interrelated elements seem to be logical in isolation, yet nonsensical and irrational when analysed simultaneously. Quinn and Cameron (1988) sought to investigate paradoxes in order to understand the complexity, variability, and uncertainty of corporate existence, and to go beyond oversimplified and divisive conceptualizations. They exploited the paradoxical tool for its ability of creating a creative mental framework to examine the effects of plurality and change, helping to understand different perspectives. Since then, multiple scholars have analysed the concept of paradox in academic research (Kets de Vries, 1995; Lewis, 2000; Cuonzo, 2014). These examples take into consideration individuals, societies, and organisations to identify fundamental conflicts, ever evolving in reiterating cycles. These researchers have contributed in distancing from the idea that change in a firm is a smooth, linear process, but rather looked at how contradictions hinder and promote organizational innovation and development.

Increased technological advancements, economic competitiveness, and globalization in the population uncover and amplify paradoxes. For instance, managers are constantly called upon to enhance productivity and at the same time innovation, create leaders but promote teamwork, think internationally while working locally (Goo et al., 2009). Researcher Maranville (1997) analysed the term used in more than 300 large publications from 1990 to 1997 and have concluded that, while labelling a conflict as paradoxical might certainly give the framework for new outlooks, it is gradually becoming an overused and undefined management cliché of our times It has been attested in several studies how academics often use paradoxes to describe contradictory demands, contradictory perspectives or apparently illogical results (Quinn and Cameron, 1988; Handy, 1994; Lewis, 2000).

Nevertheless, labelling a misunderstood process as paradoxical does not automatically aids comprehension, due to the fact that while researchers often discover paradoxes, few examine them further (Bouchikhi, 1998). In order to systematically investigate paradoxes and not only establish hypotheses and theories that represent their dynamics, but also progress in offering solving resolutions, Lewis (2000) provides a framework rooted in the integration of existing understandings of philosophy , psychology and organizational studies. The system clarifies the essence of the fundamental conflicts, processes of reinforcement of those conflicts and their management. Her work gave the premises to multiple academic researchers to exploit the potential value of the framework for the promotion of creative and complex insights.

Despite agreeing and immensely appreciating the development of the analytical guidelines provided by Lewis's (2000), I would like to argue that proposing different management propositions, as suggested in the last step of her framework, is not the optimal solution. The optimal final paradox resolution is, in my opinion, to find a way to eliminate the paradox in its entirety. In order to do so, in this dissertation I use a unique way of thinking (the Service-Dominant logic) with allows me to have the solid foundation needed in order to reframe the question itself, rather than the proposed answer. By doing so the uncertainties leading to the paradox (in this case the Innovation-Outsourcing paradox), its very core, are permanently changed and transcended into a linear relation, not cyclical.

This dissertation in an example of that process.

In the following chapters I will be summarizing the logic behind Lewis's proposed methodology on how to solve a paradox.

7.2. Reframing of a Paradox

The concept of paradox gives rise to many different interpretations. It is a rather ancient idea recorded initially in Greek philosophers and existentialist reasonings, which viewed the existence of man as paradoxical based on tensions between life and death, between good and evil, between oneself and others. Similarly, contemporary researchers in all fields, from medicine (Redel-Traub et al., 2015) to engineering (Jaehn and Letmathe, 2010) to economics (Jay, 2013) to political science (Amegashie and Runkel, 2012), have emphasized the abstract existence of paradoxes, studied the impact of their friction and proposed new coping to manage those frictions. The examples of research studies focusing on paradoxes are so vast in all fields, I only cited a few articles to illustrate my statement.

As previously mentioned, there have been numerous nuances identified in the definition of "paradox". Some scholars describe paradoxes in organizational studies as contradictions inherent in statements, relationships, or institutional processes (Murnighan and Conlon, 1991). Others define paradox as a finding or an unexpected result that opposes traditional beliefs (Maranville, 1997). Nevertheless, all the different definitions have core concepts in common.

- First, the presence of a wide variety of conflicting yet interwoven elements: viewpoints, emotions, communications, demands, personalities, desires, or practices.
- Secondly, paradoxes are created. When actors try to make sense of an increasingly complex, ambiguous, and changing world, they often simplify reality into polarized distinctions concealing complex interrelationships.
- Third, paradoxes become known by self-reflection or social contact, and shows the seemingly impossible and contradictory coexistence of opposites.

There is a need for a guiding structure to assist researchers in exploring, improving, and handling paradoxical conflicts (Quinn and Cameron, 1988). However, it needs more than identifying the characteristics. The framework proposed by Lewis (2000) describes

(1) how divided cognitive or social constructs give rise to paradoxical tensions,

(2) how the defensive reactions of the actors could fuel cycles of strengthening

(3) how actors can prevent themselves from getting inserted into these paralyzing and often fatal cycles through increased cognitive and behavioural complexity.

The arrows between the components in the chart show the phase of discovery. This methodology is summarized in *Figure 7. A Paradox Framework (Lewis, 2000).*

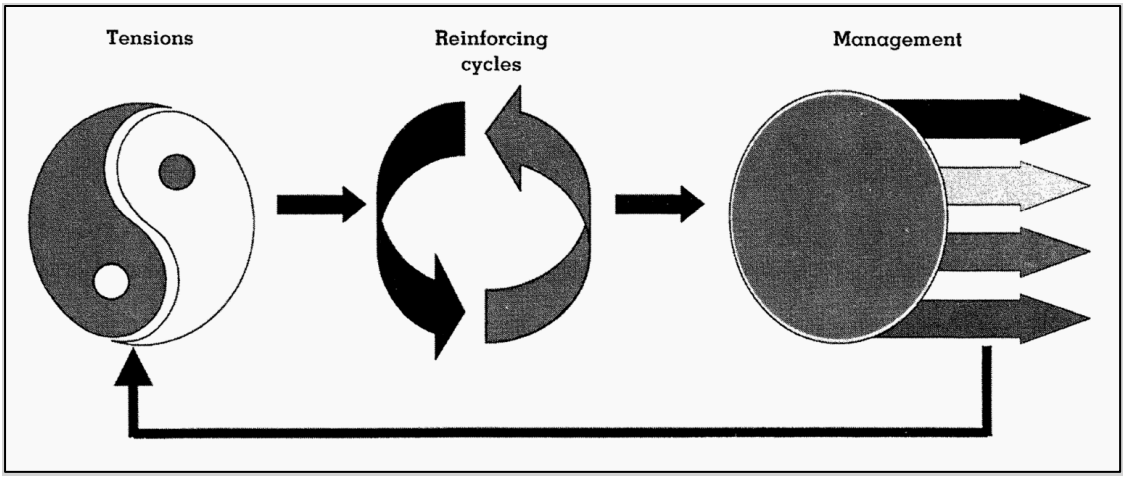

Figure 7. A Paradox Framework (Lewis, 2000)

By linking management to tensions, exploration itself is depicted as paradoxical. An ongoing cyclic journey is not a linear progress marked by a distinct endpoint or resolution. Rothenberg (1979) points out that complexity is increasingly possible with respect to relevant and acceptable opposites in science and other areas. When old parallels are overthrown, new ones emerge in an unending self-generation spiral.

It was not easy to learn how to grasp the paradox thought this framework, as the deeper I tried to logically think about the Innovation-Outsourcing paradox and its characteristics, the more challenging inconsistencies were revealing themselves. However, eventually I realized my mistake was not realising I was still thinking about the paradox through the eyes of the traditional theoretical lenses (Goods-Dominant logic), rather than the new one (Service-Dominant logic). I will elaborate extensively on the two logics in the next chapters. Once my logical rationality broke loose of the old biases and preconceptions, the solution presented itself as a transparent, almost necessary consequence.

7.3. Tensions of a paradox

Paradoxical tensions are perceptive polarities that mask the simultaneity of conflicting realities cognitively or socially constructed. In relation to a circle, dilemmas or options, paradoxical complexities are represented as two sides of the same coin. Yet the consciousness of individuals sometimes distorts this relation. In a firm environment for example, an analyst's job is to constantly stress contradictions by simplifying the interpreted data and identifying contraposing results that construct logical abstractions at the foundation of the paradox. These mechanisms or schemes help actors to gather a sense of social reality but are distorted and extremely resistant to reform until they are integrated (Borg and Magnetti, 2004). Actors differentiate a concept by adding braces or boundaries around it and making the example defined and easy to grasp. The discrepancies become progressively exponential with the passing of time, allowing the impression that these experiences have

always been and always will be distinct and permanent entities. Researchers perceive paradoxical tensions, and use tools such as autonomy, dependence, reason, imagination to create a formal logic emphasizing polarization. This knowledge is then gradually used as the theoretical foundation for traditional scientific research.

Based on Aristoteles, Descartes and Newton's conceptualizations, formal philosophy allows ideas to be compressed into increasingly smaller and more diverse components. However, formal reasoning is unable to grasp the intrinsic contradiction (Ford and Ford, 1994). Language supports the polarization inclination. Conceptual distinctions allow researchers to highlight one aspect of their thesis rather than others, resulting in the existence of literatures opposing and supporting contrasting philosophies. For instance, it is common finding authors describing objects by what they are not (Vince and Broussine, 1996).

Eastern ideologies, by comparison, emphasize the need to resist superficial discrepancies. For instance, the symbol of Yin and Yang in *Figure 7. A Paradox Framework (Lewis, 2000)* represents a natural totality made up of contradictions. If one power (for example Yin, femininity, intellect, darkness) rises to its extreme level, the opposition (for example: Yang, masculinity, reason, light) stays unaffected, reversed in the event of a pattern (Smith and Lewis, 2011).

In several ways, paradoxical tensions may appear. Putnam et al. (2016) sums up three related tension types: self-referential loops, mixed messages, and systems inconsistencies. Self-referential loops operate as contradictions are integrated into a cohesive declaration, concept, or process. The Liar paradox "I lie" is a circular declaration. If I lie, this is false declaration, which implies that I tell the truth. Weick (1969) describes cognition as a process that is inherently independent: actors filter experiences through their existing cognitive frameworks and select explications that support their existence. Mixed messages signify

inconsistencies between oral and nonverbal comments that exist during social interactions. The tensions come from the construction of distinctly unclear lexicon. For instance, a manager calls for teamwork but monitors individual performance closely. Or an organisation made of a network of decentralized, self-governing teams may use highly formalized, structured employee management procedures.

7.4. Reinforcing Cycles of a paradox

Paradoxical configurations are often risky. If researchers try to resolve paradoxical tension, they can be stuck into loops reiterating the tension. Tension could be a "trigger for change," pushing to reconsider existing polarities and recognize complicated links. However, since paradoxes are a double edge sword, tensions can also prevent improvement. Paradoxical tension targets the ego according to Freudian psychology, which causes anxiety and increases the security of actors naturally (Schneider, 1990). The individual who is trying to tackle the core of the paradox will feel destabilized, hence the first reaction is trying to rationalize it. This mind's defence mechanism can briefly reduce anxiety by eliminating the relation between inconsistencies, and by preserving the false appearance of order. But the pressure from one side of a polarity intensifies, resulting in a "loop" (Robbins, 2017). At the beginning, the defensive behaviour initially produces positive effects and gradually encourages competing unintended effects, which exacerbate the underlying tension. In order to reduce tensions. As an answer, researchers tend to again respond rationally, by forming subgroups or artificial "this against that" propositions, highlighting the similarities which hide more polarizing inconsistencies. Consequently, the repression or avoidance translates in knowledge of smaller contrasting experiences being obscured (Lewis, 2000).

7.5. Management of a paradox

Paradox management means traying to exploit its confrontational power. The goal is having the attitudes and traditions of the past dramatically reconsidered. Nevertheless, models based on linear and rational problem solving in the contemporary complexity of firms, organizations, systems, and society, are extremely challenging. Managers must acknowledge, confront, and even take advantage of the tensions and anxieties of paradoxes, because "paradoxical contribution to the thinking in the management sector is recognition of the strength to generate insight and change" (Eisenhardt, 2000). However, as mentioned in the previous paragraph, it is rather difficult accessing the power of paradox due to our rationale tricking the individual into staying within the reinforcing loops. Management of paradoxes means discovery of contradictions instead of containment. Staying within the paradox makes it possible to discover an interaction between opposing forces, thus providing a framework for apparent contradictions (Vince and Broussine, 1996).

(Schneider, 1990) argues that acceptation learning to understand paradoxically provides a sense of freedom. He suggests the three, sometimes interrelated, ways of handling paradoxes: embracing, conflict and transcendence.

First proposed way to manage a paradox is to embrace it. The goal of this method is to prevent conversations that lead to conflicting opinions and incentivize negative loops and paradoxical debates by concentrating on their stressful nature. I personally find this option not feasible, as it seems to push the mind to analyse a conveniently simplified version of the paradox, which does not equate to reality.

Second proposed way to manage a paradox is to oppose it. The goal of this method is to confront the uncertainty and to address the differences, in order to create a socially more productive interpretation. By questioning the friction, researchers improve their odds of

avoiding stagnation, as they recognize and expose their personal underlying reasoning. I personally find this option better than the previous one, but still oversimplified, which again risks a distortion of reality by falling in the temptation of reporting confirmations aiding one side of the paradox more than the other.

Finally, the third proposed way to manage a paradox is to transcend it. The goal of this method is to break away from the reinforcing cycles. Lewis (2000) states that individuals cannot break away from the reinforcement loops by using "first order" thought processes, as it results in producing a solution that is itself part of the problem. Instead, "second order" through processes, by contrast, requires questioning firm beliefs in order to create a more resilient understanding of the reverse. Critical self-reflection and social reflection can help reframe assumptions, learn from the existing tensions, and develop a comprehensive grasp on concepts and behaviour that better reflects organizational complexities. Such refraining marks a dramatic change in the significance of a situation in which the complementary and intertwined paradoxical tensions can be viewed. I personally find this option the best one out of all the other options. By retracing the questions that brought the paradoxical situation in the first place, the risks of not fully depicting reality it its wholesomeness is drastically decreased. Arguably, if the paradox manager succeeds in transcending it from "first order" rational to "second order", the reinforcing cycles of behaviour or lexicon are finally broken. The paradox transcends from a circular structure to a linear one.

8. THE SERVICE-DOMINANT LOGIC THEORETICAL FRAMEWORK

As mentioned in the previous chapter, the only way to be able to transcend a paradox is to analyse it form a new point of view. In order to allow the reader to follow my reasoning in the next chapter, it is imperative to dedicate this chapter summarizing the theoretical framework through which the Innovation-Outsourcing paradox can be seen an invalid. First, I will be explaining the foundational premises and axioms of the new theoretical framework (Service Dominant Logic), which then will allow the full understanding of the concepts of service in exchange, value co-creation, value propositions, A2A (actor to actor) relationship, and more.

The emerging view of Service-Dominant Logic, argues that the beneficiary has always been a value co-creator (Vargo & Lusch, 2004, 2008, 2016). In summary Service-Dominant Logic says the following: everything can be considered service (direct or indirect), although today most people recognize the importance of value co-creation, the economy is still treated good based; the focus on concepts as "producer" and "consumer" is wrong as the beneficiary is always part of the co-creation of co-value and use whatever value comes out in exchange for another service, so on. Understanding how co-creation of value springs into innovation is the key to take full advantage of the paradox' controversies.

8.1. From Goods-Dominant Logic to Service-Dominant Logic

Our way of rationalizing the world around us is dictated by an underling consensus of the need of a shared Dominant framework through which people can live in a civil society. For example, when someone works for a certain firm for more than, say, a decade, you can rightfully consider that person an expert supplier in the customs and processes put in place. Any new problem arising will be solved by the supplier through the firm's "rose glasses". Today a slow shift in mentality of both researchers and entrepreneurs in noticeable in marketing/management. The most alluring topics suddenly all have something to do with customizable sensorial experiences: services, both physical and intellectual. In their most famous work, Vargo and Lusch (2004) point out there is a Dominant Logic in marketing for understanding how people in talk about products and services that has shifted in recent decades. When customers buy a product, no matter if tangible or intangible, they are buying the service said product provides half of the co-created value is given by the product (its inherent use), and the other half is given by the unique background of the individual consumer. Vargo and Lush use the word "beneficiary", as the value co-creation process is very much inclusive and universal, B2B, B2C, private to private. The value in the good is not defined as value in terms of what it does for the customer. But this statement is timeless, it is true now that we have Service-Dominant Logic developed as well as it was true when our ancestors still used trading. Service in exchange for service, a service in exchange for the means to get another service.

In order to challenge the Innovation-Outsourcing paradox interpretations, a mindset shift is conducive. This is offered by the Service-Dominant Logic, as opposed to the traditional Goods-Dominant Logic (Stephen L Vargo and Lusch, 2004). Traditionally "the product" has been the centre of all activities and strategies, however in the past decades practitioners and scholars alike have gradually shifted from a product centred view to a customer centred view. To understand this shift a brief marketing history outline is needed. Despite being a collateral of the economic discipline, the contemporary consumer will confuse marketing and advertising as synonyms. However, looking back in time, the marketing discipline was born

in the beginning of the 19th century as an aspiring science, which main task is to understand and master the phenomenon of economical exchanges, of markets' behaviour (Hunt, 2002). The focus on tangible units of exchange (goods), derives from Adam Smiths' normative conceptualization of national economical wealth building by international trade (1776). Indeed, in the 18th century, wealth consisted of tangible goods, not the use made of them (Dixon, 1990), as intangible goods such as services were considered useless and hard to trade.

Ever since, research, literature, theories, and models have been created on the economics' assumption that people exchange material products. This notion carried over and has been widely accepted as dogma until recent times. Vargo refers to this mental framework as goods- Dominant Logic, where the unit of exchange is the tangible good, separate from services, which are intangible goods. As such, services are perceived as inferior exactly because they lack tangibility, hence they need to be handled differently (Stephen L. Vargo and Lusch, 2004). Under Goods-Dominant Logic, value is an intrinsic characteristic of the product itself, generated by the firm (Webster, 1992). Customers utilizing the good are thought as consumers who destroy said value and constantly repurchase it. Smiths' view was not entirely undisputed. For example, Fredric Bastiat (1880) criticized by stating that services are exchanged for services, and that exchange is the foundation of economic science. Nevertheless, the times were not mature yet; the distinction between tangible and intangible was still too acute for the general public to accept anything different. The goods focused approach ended up being Dominant in the marketing discipline.

For example, Kotler (1972) suggests maximizing a product's value by manipulating the 4Ps (product, price, place, promotion). Under this framework the customer is completely passive, who can be targeted, segmented, distributed and advertised to in order to make the exchange happen. At this point service is still considered only as one of the ways to add value to the good.

However, following the shift from industrialization to customization, the inadequacy of the Goods-Dominant Logic has arisen. Service-Dominant Logic is proposed (Stephen L Vargo and Lusch, 2004) as a better fitting alternative to understand and represent markets' reality. At the centre of this mental framework is "service" and its role. Under this lens, the focus is not on the product but on the relationship between firm and consumer. Product is the service carrier; price is a value proposition co-created by demand and supply, place becomes the value networks and processes; promotion is the vehicle to building relationships (Lusch and Vargo, 2006). While Goods-Dominant Logic views anything external to the firm as uncontrollable and passive, Service-Dominant Logic embraces the ecosystem as a source in value co-creation (Vargo et al., 2007).

This theoretical framework stems from eleven foundational premises FPs (Vargo and Lusch, 2016), assumed to be true. Five of the foundational premises are now adopted as axioms, from which essence all the other premises can be derived. It has had a fast and dynamic evolution, thanks to its open-source nature and the ability to easily accept and incorporate criticism. The core concepts of the Service-Dominant Logic framework have been identified in three main papers:

- "Evolving to a new dominant logic for marketing"(2004),

- "Service-Dominant Logic: continuing the evolution"(2008),

- "Institutions & axioms: an extension and update of Service-Dominant Logic" (2016).

This logic was and still is based on an open source model, which encourages academics of all disciplines to expand the existing research*. Figure 8. Foundational Premises of Service-Dominant Logic* neatly lists all 11 with the most updated date. Following each FP is briefly described, as they will be referenced in relation to the proposed paradox solution.

FP 1	Service is the fundamental basis of exchange (2008)	Axiom
FP 2	Indirect exchange masks the fundamental basis of exchange (2008)	
FP 3	Goods are distribution mechanisms for service provision (2004)	
FP 4	Operant resources are the fundamental source of strategic benefit (2016)	
FP 5	All economies are service economies (2004)	
FP 6	Value is co-created by multiple actors, always including the beneficiary (2016)	Axiom
FP 7	Actors cannot deliver value but can participate in the creation and offering of value propositions (2016)	
FP 8	A service-centred view is inherently beneficiary-oriented and relational	
FP 9	All social and economic actors are resource integrators (2008)	Axiom
FP 10	Value is always uniquely and phenomenologically determined by the beneficiary (2008)	Axiom
FP 11	Value co-creation is coordinated through actor-generated institutions and institutional arrangements (new in 2016)	Axiom

Figure 8. Foundational Premises of Service-Dominant Logic Vargo and Lusch (2004,2008, 2016)

- **"FP1: The application of specialized skills and knowledge is the fundamental unit of exchange".** Every individual has two resources available to contribute to society: physical and mental skills. Individual skills and knowledge are the unit of exchange each and every one of us has at our disposal. As Bastiat (1880) said, people reach the unit of utility they seek through exchange of services, which are nothing less than the application of skills and knowledges. Consequently, value in Service-Dominant Logic is looked at for the experience it provides as value-in-use, rather than the monetary amount of value-in-exchange.

- **"FP2: Indirect exchange masks the fundamental unit of exchange".** Over the years the changes in operational management led to practices and processes to mask the exchange of skills and knowledge as being the fundamental unit of exchange. In the last century, division of labour and vertical marketing have been progressively perfected, resulting in manufacturing operations being broken down so much that it is common identifying workers in any firm who are entirely disconnected from any interaction with the final customer (Webster, 1992). The industrial process has hidden the exchange of service and service skills between the global supply chain and

the end-users. Under this mindset, quality became neglected in favour of quantity and the need for quality management discipline emerged. Firms offering intangible goods equally battle the same complication of misinterpreting customers' needs. Moreover, by receiving compensation for a miniscule role in the grand scheme of the production process, the perception and appreciation of the relationship created by the end user benefiting from the workers skills is lost. The exchange of services from one actor to another has become hidden due to the complexity of the supply chain.

- **"FP3: Goods are distribution mechanisms for service provision".** The product is nothing more than an instrument to attain a service; the service is nothing more than an instrument to attain an experience. The two are interdependent, one carries the other. Ultimately, the customer is purchasing an experience, either tangible or intangible, it makes no difference. The emphasis is striped from the good and rather attributed to the use of specialized knowledge, mental and physical skills. There are diverse ways of transmitting this knowledge and skills: directly (education), or indirectly (embedded in tangible goods). Consequently, tangible products should be looked at as distribution mechanisms of knowledge and skills (Normann and Ramirez, 1993).

- **"FP4: Operant resources are the fundamental source of strategic benefit".** Operand resources are characterized by being substantial, visible, static, and finite; while operant resources are not tangible, invisible, dynamic, and endless. A firm's productivity depends on knowledge or technology, also called "propositional knowledge" (Mokyr, 2002). A firm's greatest competitive advantage are its operant resources (knowledge and skills), rather than its operand resources (tangible assets/liabilities available) (Stephen L. Vargo and Lusch, 2004). Process management focuses on harvesting as much knowledge and skills. Externally, the maximization of value is achieved by finding the healthy balance between competition and collaboration, not only within the same firm, but also the same trade, industry,

community, nation, and societies. By sharing knowledge, the learning curve diminishes. Internally, optimization is reached by the healthy balance between operant and operand resources. As an operant resource, knowledge is the core enabler of competitive advantage (Barabba, 1995).

- **"FP5: All economies are services economies".** The idea of a service economy has gained traction in the past decades due to the widespread concept of customization and individual identity. However, while by most it is considered a natural evolution of our market society, Vargo and Lush (2004) sustain that is not the case. On the contrary, the service economy is embedded in the very essence of society, we just failed to recognize it. The widely accepted economic sciences in use to this day are based on Smith's idea of the economy revolving around tangible manufactured outputs, which consequently leads to classifying services as everything that is not that, as everything intangible (Rathmell, 1966). However, this framework does not fit well with the newly found attention for customers purchasing experiences, rather than objects (Desiraju and Shugan, 1999). In our economic evolution, what has changed is not the fundamental search for service exchange, which was always present but hidden by indirect exchange (FP2), but simply how apparent this aspect has become. As marketing is a product of economics during the industrial era, it has been easier to divide the economic advancements in "eras/economies" related to the kind of output (i.e. hunter-gatherer, agricultural, industrial, and now service economy). Instead Vargo and Lusch (2006) look at each era as a period of "macrospecialization" in certain knowledge and skills set. By using Goods-Dominant Logic lenses, today's service and information economy is not a good fit; on the other hand, Service-Dominant Logic extends in covering all eras. The exchange of operant resources, regardless of time, scope, or location, is the common denominator in all economies.

- **"FP6: Value is co-created by multiple actors, always including the beneficiary".** Based on goods-Dominant Logic, the consumer is perceived as the

receiver of the product, separated from the producer. In comparison, service-Dominant Logic perceives the consumer as an essential part of the value production process. Here production is an intermediate step of the chain, not the end of it. The transition from value-in-purchase to value-in-use implies that the customer is always co-creator of value; value is always co-created with the customer. The consumer is proactive, in the sense that he/she becomes an operant resource (value co-creator) rather than operand resource (target). Value is not an inherent property of the product as it is only during its use that it holds any meaning. Therefore, the customer must be involved in the production of value. It is important to specify the individuality of this concept. It is not a pure binary interaction, as the experience the customer co-creates is the result of the embedded knowledge of multiple actors. As Vargo and Lush (2016) say in their updated version of the foundational premises *"Value is co-created by multiple actors, always including the beneficiary."*

- **"FP7: Actors cannot deliver value but can participate in the creation and offering of value propositions".** Traditionally the customer was separated from this concept because the value was imbedded in the production process. That would maximize the manufacturing process efficiency but would inevitably displace the customer-centric view. Following FP3, goods are just carriers of service. When the customer learns how to use, maintain, and exploit the knowledge embedded in them, then value creation rather than value distribution takes place (Gronroos, 1997, 2000). However, the creation of value propositions is not exclusive to service providers. The good/service can only be an offer of value proposition, but it is then up to the customer to decide whether to fulfil the proposed recommendation. The embedded value can only offer something that is potentially of value to the customer; the value is only realized when the customer uses the vessel. The subtle key information in this basic premise is that any actor can offer only a "value proposition" rather than "value." In a customer-centred context, value execution is conceived with the individual user input only during use, hence *"…an unsold good has no value, and a service provider without*

customers cannot produce anything." (Gummesson, 1994). Therefore, the firm's role is solely presenting value propositions more appealing than those of its competitors.

- **"FP8: A service-centred view is inherently beneficiary oriented and relational".** Service-Dominant Logic is customer-centred; customization, actors' relations and value co-creation are pivotal concepts. Engaging the customer through a service value proposition means keeping into account the surrounding ecosystem of the beneficiary. The understanding context of the offer is hugely important, as it allows any actor to tweak the offer so that it can match multiple customers' contexts. The Service-Dominant Logic approach demands a progressively dynamic adaptation. Consumers are at the centre and actively involved in the exchange of services. The relationships between actors (companies, organisations, consumers, stakeholders, etc.) are much more important than the interaction between exchanges themselves to maximize the interactive learning process.

- ***"FP9: All social and economic actors are resource integrators".*** The value propositions offered by firms are only part of the input into the value co-creating activities the consumer is influences by. Before the value-in-use takes place, that input needs to be integrated with other resources. Some of these resources are provided internally (manufacture, contractors, outsourcers, etc.), while others are provided externally (by the market, the government, cultures, etc.). Consequently, all individuals and all socio-economic departments act as resource integrators of knowledge and skills (Lusch and Vargo, 2009). Every actor (individual, business, customer, nation, etc.) constitutes an integral cog of distinct types of relation networks that exchange services at multiple levels. This means that the value co-creation context is the result of the integration of resources into networks.

- ***"FP10: Value is always uniquely and phenomenologically determined by the beneficiary".*** Every actor is unique and inimitable, which makes measuring and predicting value-in-use as it is co-created exceedingly difficult. Value stems from interaction and it influences by the contextual resource integrators. This makes every service exchange idiosyncratic, exclusive to the beneficiary, experiential, contextual and of distinct meaning. Vargo and Lusch (2008) chose the term phenomenon intentionally, referring to the concept of a conscious experience.

- ***"FP11: Value co-creation is coordinated through actor-generated institutions and institutional arrangements".*** Vargo and Lush (2016) consider an "ecosystem" as the interplay among actors and their contextual environment. Consequently, a service ecosystem is defined as *"relatively self-contained, self-adjusting system of resource-integrating actors connected by shared institutional arrangements and mutual value creation though service exchange*" (Lusch and Vargo, 2014). No matter on what level we consider an individual actor (firm, consumer, family, government, nation, economy, etc.), it is part of resource-integrating network of networks. These interactions create an ecosystem. In service-Dominant Logic, the service ecosystems are governed by institutions, defined as rules both explicit and implicit rules, norms and beliefs that enable and delimit actions (North, 1990; Scott, 1995). Consequently, any value co-creation progress is inherently bound by the institutions constructed by the actors (both who offers and who benefits, interchangeably).

"The battle of devices has now become a war of ecosystems, where ecosystems include not only the hardware and software of the device, but developers, applications, ecommerce, advertising, search, social applications, location-based services, unified communications and many other things. Our competitors aren't taking our market share with devices; they are taking our market share with an entire ecosystem. This means we're going to have to decide how we either build, catalyze or join an ecosystem."

Stephen Elop, CEO of Nokia (Kavalski, 2015)

Since its origins of understanding the "firm-customer" exchange, service-Dominant Logic has expanded its horizons to a wider perspective, progressively zooming out towards a systems ideology. With the contributions of countless academics, different study areas, outside of the strict marketing sphere, have been re-examined through the innovative service-Dominant Logic lenses: management (Ford and Bowen, 2008; Subramony, 2015), innovation studies (Michel et al., 2008; Vargo et al., 2015), tourism (Shaw et al., 2011), information systems/computer science (Yang et al., 2007; Alter, 2010), health (Rehman et al., 2012; Hardyman et al., 2015), engineering (Isaksson et al., 2009; Meier et al., 2011), design thinking (Kimbell, 2011; Chen et al., 2012) and many more. Service-Dominant Logic is still in its prime expansion, as an increasing number of scholars acknowledge and exploit its powerful concepts. In fact, this dissertation in primis is an example of just that. Nevertheless, its creator is restlessly solidifying its foundations on a metaphysical level by zooming out and focusing on service-ecosystems, institutions, institutional arrangements, so that we can all benefit from a sturdy mental infrastructure in future research. The research born from the advent of recognizing service as the primary focus of modern society is exponentially growing every year, for the past two decades. However, for the purpose of this paper, I will neglect all the areas strictly not related to marketing, management and the "firm/customer" relation.

The attentive reader would by now have understood that many perspectives in Service-Dominant Logic seem to be the exact opposite of those in Goods-Dominant Logic. That is an intentional trait of Vargo and Lusch, who themselves describe Service-Dominant Logic to be "inverting the Dominant paradigm " (Lusch and Vargo, 2006).

With the 11 foundational premises in mind, *Figure 9. Goods-Dominant Logic vs. Service-Dominant Logic (Vargo and Lusch, 2004)* briefly summarize the main differences that arise as a consequence between Goods-Dominant Logic and Service-Dominant Logic. There are six distinct areas in which the two frameworks have distinct opposing views:

- **Primary unit of exchange:** from operand resources to operant resources
- **The role of goods:** goods are considered mere vessels of operant resources exchange,
- **The role of customers:** customers are cocreators of value
- **Determination and meaning of value:** from value-in exchange (money), to value-in-use (experience);
- **Firm-customer interaction:** the customer goes from being a passive target, to be an active participant of the value co-creation process
- **Source of economic growth:** recognizing that the tools creating wealth are not owning and producing operand resources, but rather managing operant ones.

	Traditional Goods-Centered Dominant Logic	Emerging Service-Centered Dominant Logic
Primary unit of exchange	People exchange for goods. These goods serve primarily as *operand resources*.	People exchange to acquire the benefits of specialized competences (knowledge and skills), or services. Knowledge and skills are *operant resources*.
Role of goods	Goods are *operand resources* and end products. Marketers take matter and change its form, place, time, and possession.	Goods are transmitters of *operant resources* (embedded knowledge); they are intermediate "products" that are used by other operant resources (customers) as appliances in value-creation processes.
Role of customer	The customer is the recipient of goods. Marketers do things to customers; they segment them, penetrate them, distribute to them, and promote to them. The customer is an *operand resource*.	The customer is a coproducer of service. Marketing is a process of doing things in interaction with the customer. The customer is primarily an *operant resource*, only functioning occasionally as an operand resource.
Determination and meaning of value	Value is determined by the producer. It is embedded in the *operand resource (goods) and is defined in terms of* "exchange-value."	Value is perceived and determined by the consumer on the basis of "value in use." Value results from the beneficial application of *operant resources sometimes* transmitted through *operand resources*. Firms can only make value propositions.
Firm–customer interaction	The customer is an *operand resource*. Customers are acted on to create transactions with resources.	The customer is primarily an *operant resource*. Customers are active participants in relational exchanges and coproduction.
Source of economic growth	Wealth is obtained from surplus tangible resources and goods. Wealth consists of owning, controlling, and producing *operand resources.*	Wealth is obtained through the application and exchange of specialized knowledge and skills. It represents the right to the future use of *operant resources*.

Figure 9. Goods-Dominant Logic vs. Service-Dominant Logic (Vargo and Lusch, 2004)

8.2. Value co-creation in the Service-Dominant Logic era

As discussed in the previous chapter, the concept of value acquires a progressive form in Service-Dominant Logic. By being the result of the interaction between multiple actors, value is no longer seen as a static attribute. On the contrary, it becomes value as in-use, value as co-created, value as dynamic. Arguably, value and all its different facets are the underlying central topic in the Service-Dominant Logic and all other business-related disciplines (Ostrom et al., 2015).

Value co-creation is defined as "*the integration of resources from a range of sources by multiple actors, always involving the customer, to realize benefit in use for the beneficiaries involved in a given context"* (Vargo et al., 2019).

The conceptualization of value is initially found first in the philosophical subject-area (Gordon, 1964), adopted in the economics subject-area (Porter, 1985) and then the marketing one (Boksberger and Melsen, 2011). To mention a few examples of definitions, value went from being defined as a subjectively experienced benefit, to a good's intrinsic property directly correlated to a dollar amount and a complex multidimensional relation between utility and cost. The idea of value has been transformed and remoulded numerous times. This series of modifications, caused by diverging academic contexts and inevitable separate thought progression, has led to confusion and disorder. The different disciplinary roots originate slightly inconsistent views of the concept of value co-creation as well. However, the discrepancy of the latter concept's definition is undoubtedly inferior compared to that of the formers. Around the early 90s, the novel concept of value co-production is mentioned for the first time in an article intended for the Strategic Management discipline by Normann and Ramirez (1993). More than a decade later, it is mentioned for the second time by Vargo and Lusch (2004) in FP6. However, the term "production" was ill-received, as it hints at the transformation of resources into units of output. After accepting criticisms from

their peers on the current marketing lexicon's deficiency, the authors corrected it FP6 by replacing "… always value co-producer" (2004) to "… always value co-creator" (2008).

Under the Service-Dominant Logic framework, the way how value co-creation is obtained, became another topic of discussion lacking a singular solution. This phenomenon is again due to the conceptual ramifications previously mentioned. The founders and following supporters of Service-Dominant Logic argue that value co-creation can be attained through 'value-in-use,' 'value-in-context,' and 'value as an experience.'

Value-in-use is based on Aristotle's idea of value coming from using the good rather than being inherently stored in the good (Gordon, 1964). The beneficiary actor has or learns, the knowledge and skills necessary to achieve the value that will satisfy the specific need (Vargo and Lusch, 2016).

Value-in-context refers to the fact that every value co-creation progress needs to be looked at as grounded by its unique micro or macro social context. Every social context is different. They are all depending on various determinants, such as cultural norms, values, amount of resources, external and internal influences, etc. (Edvardsson et al., 2011). The contexts are all interdependent on each other, often overlapping. This creates complex networks, which, in turn, create larger service ecosystems. Within, actors virtually exchange knowledge and skills (whether apparent or not).

Value as experience is part of the latest update of Service-Dominant Logic. This concept refers to the fact that firms offer value propositions to the customer; it is then up to the customer to decide what value proposition would provide (Vargo and Lusch, 2016). The value co-creation process occurs simply because the beneficiary's role is central in realizing the value proposition in the first place. The experience perceived is the application of selected sections of knowledge and skills.

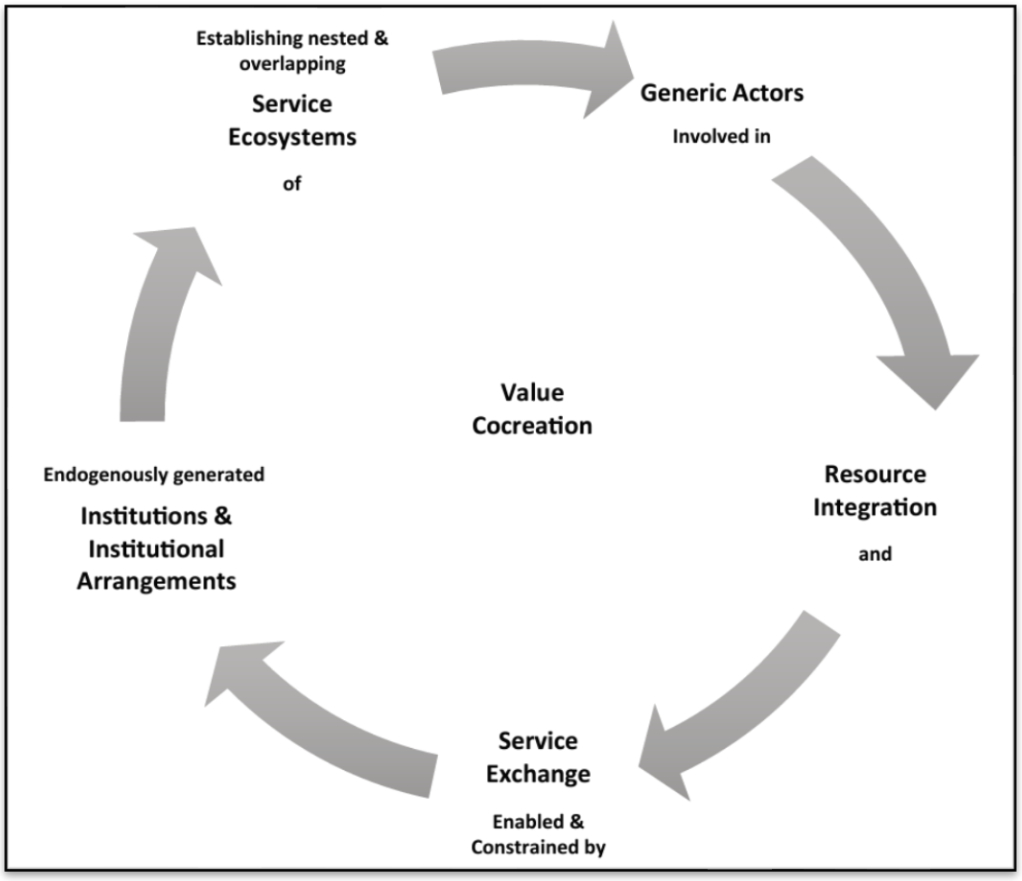

Figure 10. Narrative process of value co-creation in Service-Dominant Logic (Vargo and Lusch, 2016)

Figure 10. Narrative process of value co-creation in Service-Dominant Logic represents how value co-creation in an iterative process constantly updated by the influence of all the actors, on distinct levels. Following the diverse origins of the concept of value, value co-creation can be achieved in numerous ways. These ways are derived from combining a wide range of operant resources which have been influenced at various levels in the service ecosystem. As mentioned above, the creators of Service-Dominant Logic have identified a service ecosystem as a network of self-adjusting actors linked to shared institutional arrangements and the development of mutual value through service exchange (Lusch and Vargo, 2014). Following this definition, the actors' part of the various systems is responsible for intentionally or unintentionally creating institutions and institutional arrangements, on which the ecosystems are depending to exist and evolve. In each dynamic exchange of

knowledge and skills, there are multiple actors, all influenced by their own set of institutional arrangements. The firm's significant role as the creator of a value proposition is straight forward to identify, which explains why it has been the only focus of the Goods Dominant Logic for so many years. In fact, the contribution of the customer in the value co-creation is hidden, as previously discussed. Nevertheless, it is arguably undeniable that every single customer will fundamentally have a phenomenologically unique result by accepting any value proposition because of their individuality. In the case of the outsourcing relationship between two firms, the uniqueness of the exchange and value co-creation aspect is, to a certain extent, easier to focalize due to the often-tangible nature of the service.

Mccoll-Kennedy et al. (2012) have identified five distinct practice customer value co-creation styles in the healthcare field through a study consisting of data collection, interviews, focus groups, and field observation. The five styles the authors have listed are team management, insular consulting, partnering, pragmatic adapting, passive compliance. Two of these categories particularly fit the outsourcing practice: 'team management' and 'insular controlling.'

The first practice style, team management, develops generally positive results. It is characterized by a high level of interaction and influence between all actors and their respective systems, both primary actors such as in the outsourcing instance the client-firm and supplier-firm individuals, and secondary actors such as external sources (competitors, government and society) along with private sources (peers and family).

The second practice style, insular controlling, develops generally negative results. It is characterized by a low level of interaction and reciprocal influence of systems, due to the inclination of self-isolation in solving a problem in a team setting. This emotional baggage affects negatively overall efficiency and ultimately leads to miscommunication between supplier-firm and client-firm. Emotional baggage actors deem interactions superficial. This

category has some similarities with the team management one, as they are both based on the idea of team. However, the cooperation and communication of knowledge and skills are limited, closed and physiologically detrimental due to the shared institutional arrangements (in this case fear, shame, failure) between client-firm and supplier-firm.

If the goal is obtaining the most efficient, competent, profitable value propositions, managers in both client-firms and supplier-firms should be aware of these two different, opposing practice styles of value co-creation. The team management practice should be encouraged as the primary strategy to strive for, while the insular controlling should be discouraged, prevented, and corrected to the best of the managers' ability. By supporting active co-creation predisposition through actions, such as skills and knowledge renewal, co-learning, positive thinking, merging complementary activities to name a few, the beneficiary (customer, client-firm, general actor) is deterred from falling into the trap of 'passive compliance' practice style. This category, combined with the insular controlling one, generates overall subpar results. Passive acceptance and blind execution characterize it. The interaction level is as minimal as possible as it consists of exclusively following orders. Passive compliance style is in direct counteraction to management team style.

Mccoll-Kennedy et al. (2012) have managed to offer, through their thorough qualitative research, practical designs mapping the customer's activities, interactions, and the way they see their role within the value co-creation practice. Value co-creation involves action from the customers, who consciously or unconsciously is adding value, expanding existing skills and knowledge. Nevertheless, it is clear from the styles mentioned above, that the level of interaction, individual effort, and novelty contribution can vary greatly. This observation does not take away from the fact that every exchange of service is unique due to the beneficiary's input. Moreover, the identified styles demonstrate a hierarchy of beneficiary value-creation activities based on a fundamental level of interaction and multi-system influence.

Value co-creation failures occur once service offerings do not meet the actors' requirements or expectations; that is, once value propositions do not align between actors. Failures may also occur once actors withdraw from interacting with others. Changes may emerge once service systems expand into more evolved frameworks, by merging or separating from alternative systems, which may additionally lead to value co-destruction (Plé and Cáceres, 2010; Echeverri and Skålén, 2011; Bernard Cova and Bernard Paranque, 2012; Smith, 2013).

On other occasions, value co-destruction occurs once the value proposition is provided, but the beneficiary's expectations are incongruent. When conventional expectations set by the influence of the overlapping multi-systems of the beneficiary are excessive, to begin with, price co-destruction will occur as the value proposition fails to match (Plé and Cáceres, 2010). This asymmetry leads to the accidental or intentional misuse of resources in the activity of co-creating the value initially proposed. The beneficiary uses its knowledge and skills inappropriately due to unawareness, which will cause negative results, leading to value co-destruction. Miscommunication causes misunderstanding, which in the outsourcing practice is a focal point of constant complications. The reciprocal relationship of co-dependency client-firm and supplier-firm develop during the outsourcing experience can lead as easily to value co-creation, as co-destruction. Further analysis of this concept will be presented in the following chapter.

Value propositions and value co-creation are tools Service-Dominant Logic employs to analyse markets' characteristics and, consequently, the role of marketing in a service-based economy (Vargo and Lusch, 2016). In distinction to the traditional Goods-Dominant Logic characterized by concepts of utility manufacturing and production, the foundations of Service-Dominant Logic are enriched by inputs from social science, sociology, philosophy, organizational management, and economics. Given its transdisciplinary roots, Service-Dominant Logic is progressively being thought of as a theoretical lens applicable to understanding not only markets interactions exclusively, but also governments, society, and

other human-centric systems. Consequently, Service-Dominant Logic is being applied in several fields, including, for instance, innovation in the automated era (Lusch and Nambisan, 2015), strategic management (Storbacka et al., 2016), service design (Yu and Sangiorgi, 2017), and others. Exploring value co-creation from a systemic perspective provides a crucial advancement in understanding the intricacies of market relationships. From initial discussions of the customer's operant resource-integration role in 'value co-production' first and 'value co-creation' later, the scope of Service-Dominant Logic has increasingly broadened to incorporate a holistic significant role of value co-creation, hence the natural shift of topic to service ecosystems. Those overlapping norms and institutions determine how actors ultimately integrate their resources, how they manage to solve obstacles and co-create value for themselves and others.

By adopting an ecosystem perspective, the unit of focus shifts from the binary confrontation supplier-customer to a more advanced interconnected view of resource integration among a marketing system. The framework has evolved considering other factors of influence important in the value co-creation process: stakeholders, networks and, more recently, systemic ecosystems (Stephen L Vargo and Lusch, 2004; Vargo and Lusch, 2008, 2017; Akaka et al., 2019). This evolution occurred when realizing that constricting these service-centric views to the firm-customer relationship only, was limiting the framework's potential. As the advancement of society, the traditional framework results outdated, disconnected from reality. The positive practices of every actor involved in a value exchange, include offering or receiving a value proposition as a service vessel.

Value propositions are a communication device for articulating an actor's resource offering to others (Payne et al., 2017). Early discussions (Bradley, 1998) present value propositions from the traditional binary perspective as a statement of the value that may be 'delivered' by the supplier to the customer. In Goods-Dominant Logic, the firm is labelled as the creator of value. As mentioned earlier, with time view then progressed to considering value propositions for different stakeholders, such as employees. A Service-Dominant Logic

perspective on value propositions developed, which embraced a more comprehensive range of actors up to reaching a service ecosystem balance (Frow et al., 2014, 2016). Following researchers (Edvardsson et al., 2011), identify value propositions as vessels linking resource offerings between actors; hence, they are themselves dynamically through dialogue, negotiation, and knowledge sharing (Ballantyne et al., 2011).

Following the trend of expanding the Service-Dominant Logic, Wieland et al. (2017) adopt an actor-to-actor (A2A) point of view, with the intention of transcending the traditional B2B and B2C relation to a new aspiring level of abstraction. This conceptualization highlights how business models and relative value propositions are unique to the targeted beneficiary but have implications for different ecosystem actors. From an ecosystem perspective, value propositions provide the means for promoting resource integration that seeks resource density and, thus, the further development of the ecosystem itself (Peters, 2016).

9. REFRAMING THE INNOVATION- OUTSOURCING PARADOX

After analysing the rather scares literature on the Innovation-Outsourcing paradox (Lacity et al., 2010; Aubert et al., 2015; Aubert and Rivard, 2016; Sun and Chen, 2016), multiple propositions have been offered, such as "extreme contracting' or "temporal ambidexterity" or "structural ambidexterity". However, in reality, none of the arbitrary approaches proposed truly solve the conflict identified by the paradox. The reason I argue that last statement is because, as explained in the previous chapter, value is co-created in several ways, which makes it always innovative to a certain degree. According to service-dominant theory, value is defined independently and functions as an orientation for actors linked by relational agreements and generating reciprocal interest. If the actors are unaware of how the other actors involved conceptualize value, a successful collaboration between them becomes difficult, if not impossible. For example, if certain players are seeking efficiency and others are focusing on reaching effectiveness, the establishment of shared benefit is more likely not to be reached.

It may be instinctive to think the fitting solution to the Innovation-Outsourcing paradox is the simplest: have a manager experienced in both fields supervise both client-firm and supplier-firm making sure the balance between innovation and structure is maintained. However, this is a Goods-Dominant Logic way of analysing things, as we are focusing on efficiency in terms of productivity, in terms of quality and quantity of units of output the supplier-firm is able to produce. This proposed solution might even aggravate the problem

by adding in the reaction processes the individuality of one additional individuality and competence of this third party, who realistically cannot be an expert in both the client-firm's and supplier-firm's skills and knowledge. In fact, if the third party were to be internal management than the client-firm would not need to resort to outsourcing innovation in the first place, and if on the other hand, the third party were external than the paradox would reinforce itself by rising between the now three way interaction between client-firm, supplier-firm and external third party contractor. This dynamic would consequently aggravate the problematic situation rather than appeasing it, by increasing its complexity.

This is not to say that appointing a contractual manager supervising both client-firm and supplier-firm, weather internal or external, would be unconditionally detrimental to the relationship dynamic. In fact, having clear management structure would be arguably improve the communicative transparency between the client-firms and supplier-firm operant resources. It would also ensure contractual fairness and implement impartial expectations management for both sides. However, as far as the discussed Innovation-Outsourcing paradox is concerned, this method does not provide a solution to it.

As mentioned in the previous chapters, this paradox contraposes two focuses: the effectiveness of innovation and the efficiency of productivity. From the Service-Dominant Logic, when the client-firm outsources innovation is because it is interested in acquiring an implementation of their currently lacking skills and knowledge, in order to create a more appealing value proposition to the beneficiary of that value. The value proposition is there to fulfil some kind of need of the beneficiary; an efficient design with an effective solution. However, the concepts themselves of efficiency and effectiveness must be reframed first as they were created under the Goods-Dominant Logic framework.

In fact, in Goods-Dominant logic, both efficiency and effectiveness are constructs build in a product-centred point of view. Traditionally, the dichotomy of efficiency and effectiveness have been used as a pair and analysed as if they were polarized concepts (Karim and Siegel, 1998; Biloslavo et al., 2013; Adjibolosoo, 2017). However, the Service-Dominant Logic prospective, allows us to rethink the concepts of efficiency and effectiveness. When the centre of focus shifts from the product to the value that product brings whoever uses it in the co-creation, then ultimately, we can see efficiency as a consequence of effectiveness. What defines a resource's usefulness is its value in-use, value in context and value in experience, as described in the previous chapters. All of those intrinsic qualities of the value proposition determine its effectiveness (does the value proposition fulfil the beneficiary's need?), which in turn, as a consequence defines its efficiency (how well does the value proposition fulfil the beneficiary's need?). From the previous chapter on Service-Dominant logic, value is co-created, always with the input of the beneficiary, and that beneficiary can be any actor (A2A), not just the consumer as in Goods-Dominant logic.

The A2A orientation also involves a number of other things. Firstly, it confirms that value is created in networks because it means that the resources used for the provision of services generally come from other actors, at least in part, as specified in FP9. Second, this implies a dynamic element for these networks as the nature of the network changes in some way each integration or application of resources. This means that a network comprehension is insufficient alone and that it needs a more complex system orientation. Thirdly, and perhaps less apparent, along with the complex network alignment, it implies structures that can promote all this convergence of capital and the sharing of services through organizing stakeholders. Thus, as Chandler and Vargo (2011) suggest, identification and comprehension of presence and function of institutions is necessary for understanding value-cocreation through regular communication processes of different forms of institutions and institutional bodies, assemblies of interdependent institutions. In accordance with this above, over the past few years the value co-creation story has become clearer that actors who cocreate value through holistic, meaningful experiences in nesting and overlapping service ecosystems, which are governed and evaluated through their institutional arrangements, become one of

the resource-integrating reciprocal service actors. The A2A point of view, rather than the restricting B2B relation allows value cocreated in outsourcing to be looked at differently.

Lewis (2000), as mentioned in the previous chapters, suggests using "second degree" rationale in order to be able to reframe the paradox by annulling the reinforcing cycle of uncertainty. By recognizing how value in cocreated by supplier-firm together with client-firm. The value proposition should be fulfilled not with the goal of simply completing a task to get remuneration, but rather to generate a service (task) in exchange for another service (renumeration), which then will be exchanged for another service (supplier-firm labour pay), which then will be exchanged for another service (supply-firm employee benefiting from client-firm value proposition), and so on and so forth, reaching full circle. This circular system benefits from the efficiency of the value proposition offered by the collaboration between client-firms and supplier-firms. However, without effectiveness there would be no efficiency as the need could not be resolved in the first place.

By looking at outsourcing innovation under this new mind frame, we can acknowledge that because value is under a perpetually self-updating cycle of individual actors' contribution (effectiveness in innovation side of the paradox), and that the value proposition would not exist if it was not effective, hence efficient (efficiency in productivity), we can break out of the paradoxically reinforcing loops of conflicting bipolarity. A visual summary of the mechanism used to reframe the paradox is offered below in *Figure 11. Reframing Innovation-Outsourcing paradox through the Service-Dominant logic.*

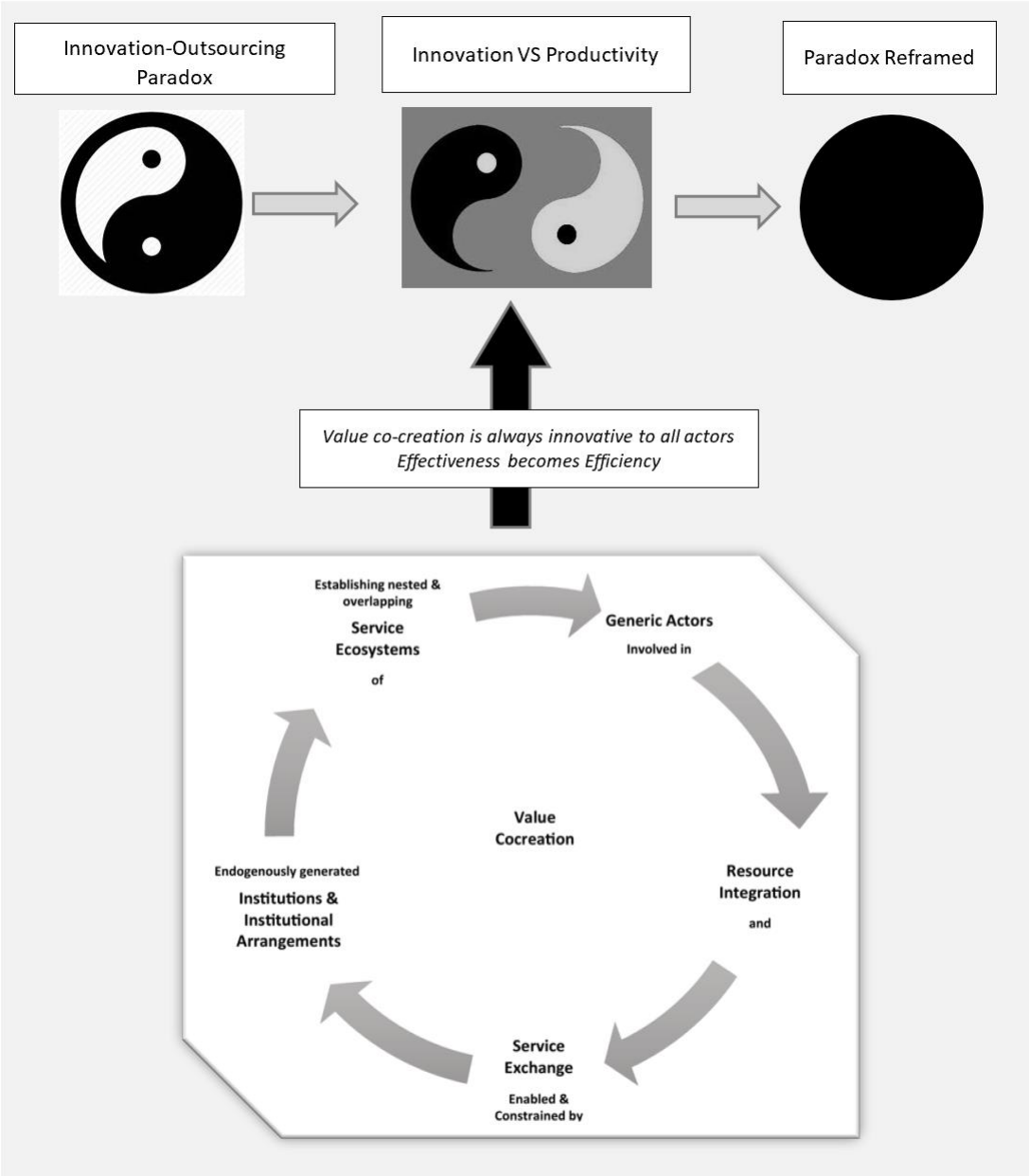

Figure 11. Reframing Innovation-Outsourcing paradox through the Service-Dominant logic

10. INDUSTRY IMPLICATIONS

In order to give the reader practical examples of what a successful innovation outsourcing relationship look like, in this chapter I will report two case studies I found appropriate.

There are contradictory estimates of the industry size, but experts believe that the outsourcing industry is increasing gradually. As of 2019, the annual outsourcing industry was US$ 92.5 billion (Statista, 2020). Reconnaissance that all potential partners co-create any process in a product life, allows the supplier-firm to contribute its skills and knowledge to the interaction and to build a more effective collaboration with the client-firm. There are many effects for the industry to encourage and enforce value co-creation at contract level: improved capacity for creativity, decreased net cost for each value-added transaction, and an overall longer partnership caused by constantly renewed trust.

Nowadays firms and customers alike rely heavily on technological tools, which translates into innovation being deeply linked to technologically based advancements. The scope of Information Technology systems has been extended with of technology itself. Throughout the academic literature, the definition of Information Technology is no longer strictly constrained. In fact, together with specific consumer needs, it is present in every

aspect of life and used to fulfil every part of all actors' daily needs and habits. Information Technology infrastructure is seen to promote improvements and changes in organizations and has been allowed both internally and externally to deliver services and solutions.

As mentioned in the previous chapters, under a Service-Dominant Logic viewpoint, client-firms, supplier-firms, customers, network systems at various levels of aggregation are all actors with the same goal: exchange of service for service. This consideration implies that all firms are benefiting from outsourcing, whether it being labelled outsourcing or not. Consequently, countless managers knowingly or unknowingly, confront themselves with the Innovation-Outsourcing paradox.

For the benefit of this study, in the next chapters, I present one example of failed management of the paradox and one example of success.

Royal Bank of Scotland Information Technology Business

Royal Bank of Scotland is an example of failed innovation outsourcing management. Royal Bank is one of the older British banks with over 120 thousand employees and more than 50 million dollars market value. In 2012 it has had an incident involving failed innovation outsourcing management which costed the bank millions of dollars in lost accounts. Royal Bank of Scotland has not released the name of the supplier-firm in charge of updating its online services. The program needed upgrades and one of the changes was planned for June 2012. Unfortunately, millions of bank customers did not have access to their accounts for a full day. Royal Bank management personnel did not acquire the skills and knowledge necessary to run the innovative upgrades due to miscommunication with the supplier-firm. Not only corporate and non-commercial consumers have not been able to withdraw funds, check their balance accounts or transfer funds, but even the bank itself had lost access to its own Information Technology related systems. In the lack of technological upgrades, the entire financial network was frozen. Consequently, this mishap had an immense influence on

small businesses trust, leading customers deciding to change provider, which resulted in Royal Bank of Scotland to lose hundreds of thousands of accounts.

In this case, the client-firm failed to consider the outsourced innovation as an iterative co-creation rather than an external assignment which design is exclusive to the supplier-company. From the supplier-firm point of view, the value proposition's goal of updating the banks software should not have considered Royal Bank of Scotland as beneficiary, but their client-firms' customers as well.

Eataly

Eataly is an example of successful innovation outsourcing management. It is a case of successful collaboration between client-firm and supplier-firm as the innovation design has been constantly managed in unison. Their relationship is based on mutual trust and shared visions with the beneficiary in mind. Eataly, the client-firm, and High Acquisition Technology, manage and co-create the value proposition unitedly. Eataly is a high-end Italian retail chain that provides hotels, groceries, libraries, and meeting facilities present in 12 countries. The chain not only sells high quality products, but also has a special, vibrant, and inexpensive client experience that underlines the relevance and meaning of products, which increases the beneficiary's knowledge. Eataly is now a modern eco-system which serves as a core brand for a wide range of brands and actors, sharing the common foundation of quality food and drinks products and services, based on a rich Italian gastronomy heritage.

Eataly has integrated innovation in its Information Technology networks and manages to provide a customized experience although being a scalable. The value co-creation is actualized in equipping every location with a "Consume-Shop-Learn" service, which allows every individual to personalize its experience by consuming and reading about the food of their choice. Eataly was able to position itself on the market rapidly, entering into major

relationships with producers and thus providing its consumers the best level of product service in accordance with Eataly's business model. Their most recent innovation outsourcing project, co-created with the supplier-firm High Acquisition Technology, is aimed at furthering the value-in-experience by placing in every store a unique infrared sensor which allows customer to skip the checkout line and step right out by mimicking typical italian gestures based on the product the consumer buys. The purpose is to make the beneficiary feel like there are "*buying like an italian*".

11. CONCLUSION

Identifying a paradox can be a really powerful tool, when also analysed correctly. Often times researchers do not find an adequate solution to paradoxes, hence making them useless and more confusing. It is my opinion that whenever possible it would be best to transcend the paradox in question and break the reinforcing cycles by realizing that it was never there in the first place.

By leveraging the Service-Dominant Logic framework and its way of presenting innovation, value propositions and value co-creation, I was able to eliminate the uncertainties created by the intrinsically opposing concepts of innovation and productivity, loose and strict management, effectiveness, and efficiency. After discrediting the paradox, it is arguably safe to say that any case of inefficiency between client-firm and supplier-firm is due to inattentive management interaction.

The A2A orientation also implies several other things. First, it confirms that value creation takes place in networks, since it implies that the resources used in service provision typically, at least in part, come from other actors, as specified in FP9. Second, it implies a dynamic component to these networks, since each integration or application of resources (i.e., service) changes the nature of the network in some way. This in turn suggests that a

network understanding alone is inadequate and that a more dynamic systems orientation is necessary. Third, though perhaps less obviously, along with the dynamic systems orientation, it suggests the existence of mechanisms to facilitate all of this resource integration and service exchange through the coordination of actors. Thus, as we indicate in Vargo and Lusch (2011), acknowledgement and understanding of the existence and role of institutions, those routinized, coordinating mechanisms of various types, and institutional arrangements, assemblages of interdependent institutions, become essential to understanding value co-creation. In line with the above chapters, the narrative of value cocreation developed into one of resource-integrating, reciprocal-service providing actors cocreating value through holistic experiences in nested and overlapping service ecosystems, governed and evaluated through their institutional arrangements. This shift of prospective allows transcendence.

I do not believe paradoxes can all be transcended into something new or into inexistence, however it is a useful mental skill to have in order to build and create new knowledge. I am not referring to useless minute knowledge applied to a niche situational context, but rather concrete knowledge, based in the solid foundations of a strong theoretical framework. Having an educated leadership aware of the everyday conflicts of life will allow innovative solutions to arise, because of the freedom that comes with not being refrained by paradox reinforcing themselves into new cycles. What managers need to learn is not how to find the answer in each minute case scenario, but rather how to apply the frameworks scholars offer, in order to manage rephrasing the questions to be as representative of reality as possible.

The world is not simple. We try simplifying the complexity of dynamics governing it in order to explore it, understand it and teach it. Often in that translation involuntary mistakes are made. There will always be a certain degree of marginal error when trying to analyse it in academic research, however just being aware of this complication is an important step in allowing our minds to constantly update the methodologies and theoretical frameworks at its disposal in order to expand its skills and knowledge.

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