THE INNOVATION PARADOX: HOW GOVERNANCE AND RISK INFLUENCE INVESTMENTS IN INNOVATION

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ABSTRACT

To discern why companies struggle to accelerate supply chain innovation, we conducted case studies at 15 buyer/supplier dyads. We focused on how different governance mechanisms—specifically contracts and trust—affect, inhibit, or promote relationship-specific innovation investments. We find cultural and structural elements embedded in the buyer and supplier organizations actually lead to an innovation paradox. In essence, corporate efforts that rely on short-term contracts to protect against relationship risk diminish innovation, increasing competitive risk.

Key Words: Buyer–Supplier Relationships, Contracts, Trust, Innovation, Risk, Governance