Directionality in Collaborative Innovation:
Governing Inter-Firm Relationships in the Supply Chain of Complex Products

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Abstract:
This paper investigates the link between how firms govern their relationships with their counterparts in vertical networks and the likelihood of developing product and/or process innovation. It reports on the results of a survey on Italian automotive suppliers, which show that actors do not select coordination mechanisms according to the object of exchange and the related innovation activities. Conversely, different patterns of governance emerge if one distinguishes between companies transacting downstream (e.g., a second-tier supplier selling their components/systems to a first-tier one) and upstream (e.g., a second-tier supplier buying component/system by a third-tier one). In the first case, firms are more likely to innovate with their counterpart when adopting contractual governance tools. In the second case, companies innovate with their counterpart when trust and trust-building practices are in place.

Keywords: innovation, inter-firm relationships governance, informal relationships, practice, trust, supply chain.