16 FACTORS CONTRIBUTING TO SERVICE INNOVATION: A FRAMEWORK, SYNTHESIS AND RESEARCH DIRECTIONS

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ABSTRACT

In a competitive business environment, firms are under pressure to differentiate their offerings by being innovative with respect to the identification, selection, and use of resources. In their urge to gain position and superior profits, firms make use of their specialized competencies to deliver services and products in new creative ways. With growing contribution of service sector, this need to innovate is felt more by service firms as compared to manufacturing industries. The present work therefore, makes an attempt to synthesize the existing literature and provide a comprehensive understanding of the key factors namely, 'strategic combination of resources', 'use of informational technology', 'organizational culture', 'customer interaction and co-creation of value', 'knowledge based networks' and 'competitor orientation' facilitating service innovation and their resultant impact on overall performance of a service firm. The discussion provides useful directions for successful development and implementation of innovation in services and highlights the scope of future research in this area.

Keywords: Service Innovation, Resource Integration, Organisation Culture, Knowledge Based Networks, Value Co-Creation

INTRODUCTION

Globalization, technological changes and cut throat competition pose challenges to the firms to sustain in the market place, making it imperative for them to innovate and continuously reshape their offerings regardless of whether they are in a service sector or in a manufacturing industry. However, service sector is increasingly contributing to gross domestic product (GDP) of developed as well as developing economies (see Table 1). Despite the global crisis decelerating service growth in some countries including India, this sector continues to grow at a much higher rate than the other sectors. With economic growth primarily service driven, firms in the service sector undoubtedly play a key role in the generation and use of innovation (Ostrom et al., 2010). Realizing this fact, many firms in emerging economies like India have found service innovation to be most effective way to open the door to future business opportunities and increase profitable revenues from global markets (National Knowledge Commission, Government of India, 2007).

Though recognized as an integral part of service marketing literature that deserves greater attention from academics (Berry et al., 2006), the notion of service innovation remains an under-developed and under-researched phenomenon. Few empirical studies conducted in this area indicate positive linkages of service innovation with increasing market performance, efficiency and value creation, but fail to provide a comprehensive view of the key factors that contribute towards innovation in services. The present work attempts to bridge this gap and contributes to existing literature by providing an understanding of factors that facilitate innovation in service firms.

Innovation in Services: Meaning and Importance

Over the years, marketing practitioners and academicians have defined the term 'service innovation' in different ways. According to the traditional notion given by Thompson (1965), service innovation is 'the generation, acceptance, and implementation of new

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Table 1: Growth in Service Sector

Country	Rank		Share of services (percent of GDP)			Services growth rate (percent)		
	Overall GDP	Services GDP	2001	2010	2011	2001	2010	2011
US	1	1	77.0	78.3	78.4	2.9	2.5	5.1
China	2	3	40.6	41.9	41.7	10.4	9.9	8.9
Japan	3	2	70.6	69.9	70.5	1.8	1.1	0.6
Germany	4	4	70.0	70.8	70.0	2.5	1.0	1.9
France	5	5	76.8	79.0	79.2	1.8	1.9	2.1
Brazil	6	8	65.4	66.2	66.5	1.8	5.0	3.1
UK	7	6	74.0	76.4	76.0	3.8	1.1	1.2
Italy	8	7	70.9	73.1	73.1	2.6	1.4	0.7
India	9	10	50.1	56.8	58.2	7.5	9.4	7.4
Russia	10	13	56.3	62.4	62.1	3.3	3.9	3.6
Canada	11	9	65.0	69.9	69.7	3.5	2.6	2.2
Australia	12	11	67.9	69.0	69.2	3.9	2.3	3.6
Spain	13	12	63.7	69.8	70.0	3.6	1.2	1.2
Mexico	14	14	61.4	63.8	64.2	1.2	5.4	5.0
South Korea	15	15	60.5	57.0	56.6	4.4	3.9	2.7
World			68.2	67.6	67.5	2.8	2.9	3.6

(Source: UN National Accounts Statistics, 2013. http://indiabudget.nic.in)

processes, products, or services for the first time within an organization setting.' A broader understanding of the term is provided by Banbury and Mitchell (1995) who define it as 'an interactive process of converting opportunities into practical use.' The process of turning opportunity into new ideas and implementing them not only provides flexibility to firms to choose different options to satisfy their customers on a sustainable basis, but also becomes an effective way for a company to accelerate its growth rate and profitability. The degree of innovativeness further reflects the firm's knowledge and capability to increase organizational performance through application of new methods and processes. Some authors (e.g. Liao et al., 2008; Cantner et al., 2011) have viewed the concept of services innovation in terms of the application of specialized competencies (knowledge and skills) in service deliverability which reflects its concerns with respect to when, where and how a service product is made available to the customers. As suggested by Hu et al. (2009), it can also be understood as a firm's creative ideas in delivering service offerings in order to expand and retain the customer base.

Until recently, empirical studies on the subject of innovation focused exclusively on product innovation and manufacturing industries. A number of researches (e.g. Calantone et al., 2002; Dilk et al., 2008; Grawe et al., 2009) have also suggested that innovation makes a major contribution to firm's success in the service industry.

Factors Facilitating Service Innovation

Though research on service innovation has attracted increasing interest of academicians and practitioners (e.g. Kindstrom et al., 2013; O'Cass & Sok, 2013; Salunke et al., 2013), little is known about the collective interplay of various factors that facilitate innovations in service firms. Studies in this area have generally focussed on one or two determinants (see Table 2) ranging from organisation's internal environment such as information technology experience (Cohen and Levinthal, 1990; Bolton and Saxena-Iyer, 2009), application of knowledge and skills (Cohen and Levinthal, 1990) to organization's competitive environment (Chen et al., 2009).

Table 2: Studies on Innovation in Services

Author(s)	Services	Factors Analyzed
Thakur and Hale (2012)	Financial, Medical, Food and Hospitality, Communication services	Success factors (customer demand and competition) and impeding factors of service innovation
Hu, Horng and Sun (2009)	International Tourist Hotels	Knowledge sharing and service innovation performance
Hipp and Grupp (2005)	Service Type: Knowledge-Intensive, Network-based, Scale, Supplier Dominated	New service development process
Salunke, Weerawardena and McColl-Kennedy (2013)	Project oriented firms (Building and construction services)	Recombination of resources at hand and service enterprenuership
Riel, Lemmink and Owersloot (2004)	High-technology services	Internal innovation success factors
Chen, Tsou and Ching (2011)	IT Industry	Coproduction and its effects on service innovation
Acar and Acar (2012)	Health Care Industry	Organisational Culture and innovativeness
Chen (2011)	Hotel services	Culture and Personality
Chen, Tsou and Huang (2009)	Marketing and IT departments of Financial Firms	Service Delivery Innovation, its antecedents and consequences
Wyatt (2000)	Government; technology services	Development of information networks by governments for innovation
Santamarı´a, Nieto and Miles (2012)	Manufacturing Firms	Service related (Customer Interaction, Advanced Technology etc.) and manufacturing related factors
Alam (2006)	Financial service	New service development process and strategy
Cheng and Krumwiede (2012)	Diverse service firms	Competitor orientation, customer orientation and new service performance linkage

(Source: Literature Review)

Based on the existing literature, the paper provides a holistic understanding of the primary factors namely, 'strategic combination of resources', 'use of informational technology','organizational culture', 'customer interaction and co-creation of value', 'knowledge based networks' and 'competitor orientation', that contribute to service innovativeness.

1. Strategic Combination of Resources

One of the primary factors that have gained attention of number of researchers relates to the strategic combination of resources. Studies analyzing this have stated that innovation provide better solutions in context of resource constrained environments where organizations suitably devote substantial resources to process improvements. Innovation in the form of new services from firm's existing resources creates unique opportunities and greater value for clients (e.g. Baker and Nelson, 2005; Den Hertog, 2010; Salunke, 2013).

The majority of studies in service innovation pay scant attention to the implications of resource constraints in a firm's pursuit of innovation. While firms often operate under conditions of environmental constraints and dependencies (Casciaro and Piskorski, 2005), less is known about how firms create value from apparently identical resources. Therefore, the strategic combination of resources requires an understanding of two related aspects: first, how a firm at first approaches its current resources that are available within an organisation, especially in resource constraint environment and secondly, how a firms' capability as well as its affordability to collaborate with other resource partners helps to create value in the form of innovation.

As suggested by number of studies in recent past (e.g. Baker and Nelson, 2005; Gibbert, Hoegl, and Välikangas, 2007), a firm requires an entrepreneurial mindset as well as capabilities to determine and utilize resources within its reach to enable it to operate in a resource constraint environment and generate innovative outcomes. While dealing with multiple projects and diverse client specifications, these firms are required to combine both tangible and intangible resources to deliver customer value through timely completion of projects (Blindenbach-Driessen and Van den Ende, 2006). Therefore, the distinctive capability of combining limited or constrained resources to generate value becomes important for the firms.

At the same time, wide heterogeneity of resources along with the increased organisational specialisation provides an impetus to search for the partners with whom they can integrate resources. Therefore, resources (whether tangible or intangible) do not have an intrinsic value in themselves rather they require application and integration to become valuable when a potential resource is turned into a specific benefit (Lusch et al., 2008). According to the resource advantage theory, the resources enable a firm to produce efficiently and effectively a market offering that has value for some market segments. This view is also represented in 'resource-based theory', which emphasises the strategic value of an organisation's intangible resources in the form of distinctive knowledge, skills and competencies that can generate sustainable competitive advantage (Arnould, 2008).

2. Use of Information Technology

The growing prominence of information technology in a firm's daily operations led the researchers to study the use of IT in managing innovation (Lin and Ho, 2007; Chen et al., 2011). The use of information technology in a firm facilitates innovation through the coordination of intra-and inters firm activities and information processes. In an environment of uncertainity, the use of IT has been found to enhance information processing and create competitive advantage (Ross et al., 1996). As noted by Heskett et al. (1990), most successful service organizations are information-based primarily through the utilization of IT systems. The value creation through information technology is best reflected through IT capability resource and use of advanced technology in an organisation.

A number of recent studies have examined IT capability from a resource-based perspective (e.g., Bharadwaj, 2000; Bhatt and Grover, 2005) comprising of resources that include IT infrastructure, human IT resources, and IT-enabled intangibles. IT infrastructure transforms the way customers interact, enhances a company's response to customer demands with shorter delivery times and enables customers to monitor their deliveries. Furthermore, companies take advantage of IT when designing or modifying new processes for service delivery (Avlonitis, Papastathopoulou, and Gounaris, 2001), thereby resulting in delivery process innovation. Thus, IT capability serves as an operant resource which produces effects, that offers an opportunity to provide new and innovative services.

In addition, the intangible nature and information-based content of services give information technologies a central role in innovation activities. Studies in the past (e.g. Hipp and Grupp, 2005; Pires et. al., 2008) have shown that these technologies serve as tools for better and more systematic information gathering and sharing on competitors, competing services and new customer needs, thus enabling the creation of new services/ processes or improvement of existing ones. Advanced technologies allow manufacturing firms to make better use of labour, equipment and materials that result in financial savings and improvements in product quality and reliability. The recent work of Santamarı´a et al. (2012) suggests that advanced technologies may be used to enhance innovativeness both in manufacturing as well as service contexts.

3. Organizational Culture

Amongst the various factors that influence the rate of innovation in a firm, corporate culture has been recognized as an important factor that helps an organization to sustain in competitive environment (Skerlavaj et al., 2010). Schein (1997) defined organizational culture as a pattern of basic assumptions invented, discovered, or developed by a given group as it learns to cope with the problems of external adaptation and internal integration. In the context of service innovation, organizational culture plays an important role in terms of assigning value to the creativity of employees, believing that innovative market opportunities are required to deal with problems of survival and prosperity, recognizing environmental uncertainty and competitors' threats, and expecting its members to behave accordingly. A study by Jaskyte and Dressler (2005) show that an innovative culture can increase an organization's ability to achieve innovative goals due to the clear understanding of its objectives by employees and their commitment to achieve those objectives. Accordingly, innovative behaviour of employee as well as employer forms an integral part of organization culture. On the employer's side, it is important to have a team leader who is a risk taker, creates supportive climate, value and appreciate creative minds, believes in team work, recognise the team effort, manage the change and inculcate those values in employees. Employee's innovative behaviour on the other side includes employee freedom to grow, acceptance to change, creativity, self improvement, enjoyment at work, commitment and personal responsibility.

4. Knowledge Based Network

Since the 1990s, knowledge is gaining its significance both for individuals and organizations and enterprises are encouraged to adopt novel ideas while reforming old operational procedures and creating new ones (Liao, 2008; Cantner et al., 2011). In the literature related to innovation as well (e.g. Grant, 1996; Galunic and Rodan, 1998), knowledge is discussed as the element of a recombination process between key partners, suppliers and employees to generate innovation. The exchange of knowledge and information results can be seen as an asset that facilitates innovation by providing solutions to vital questions such as when, how much and what to invest in. It therefore, becomes important for innovating firms to have a sophisticated knowledge based network, which pays a lot of attention to the special needs of knowledge creation. The primary task of the innovating firm is to reconfigure existing knowledge assets and resources so as to explore new knowledge which contributes to the firm's competitive advantage (Grant, 1996; Galunic and Rodan, 1998; Hall and Andriani, 2002) and positively impacts the organisation in the long run by creating an environment of continuous improvement.

5. Customer Interaction and Co-creation of Value

Interaction has traditionally been considered a defining characteristic of all services primarily due to the fact that customers interact with the firm's technology, people and processes in the creation and delivery of services. Several studies (e.g. Lusch et al., 2007; Schilling and Phelps, 2007) have revealed that the involvement or participation of various exchange partners including employees, managers and customers at both formal and informal levels has positive effects on innovative practices, behaviour of customers (e.g. service usage, repeat purchase behaviour and word-of-mouth) as well as firm's performance (efficiency, revenues and profits). In other words, this customer-firm interaction results in innovation through co-creation of value. Given the level and specificity of the costs attached in the process of implementing an innovative service strategy, collaboration with customers provide an attractive option for firms that want to innovate (Mathieu, 2001) and serves as a key ingredient through which businesses not only discover or develop new products and services, but are also able to provide 'servitized' or 'tailored solutions'. However, extending customer involvement into service processes and organizational culture remains a challenge for the service firms. OECD (2001) indicates that research in service organisations is often aimed at improving the interface (or communication) with customers. In this regard, Souder and Moenaert (1992) suggested two dimensions of communication namely innovative communication (i.e. creativity in problem solving leading to new idea generation) and coordinative communication (i.e. exchange and matching of information concerning interdependent tasks of different project members) that plays an important role in bringing about the intended change in the behaviour of information receiver.

6. Competitor Orientation

In the global economy, innovations by firms are largely market-driven i.e. based on competition or competitive orientation and are broadly formulated within the firm's strategic framework (Sundbo, 1997). Accordingly, a firm's ability to identify, analyze, and respond to competitors' actions largely defines the success of such innovative practices (Kohli and Jaworski, 1990). For companies that are aware of existing competitive threats or imitate competitors' strategy, such an approach provides stimulus to service innovation at minimum risk and development cost.

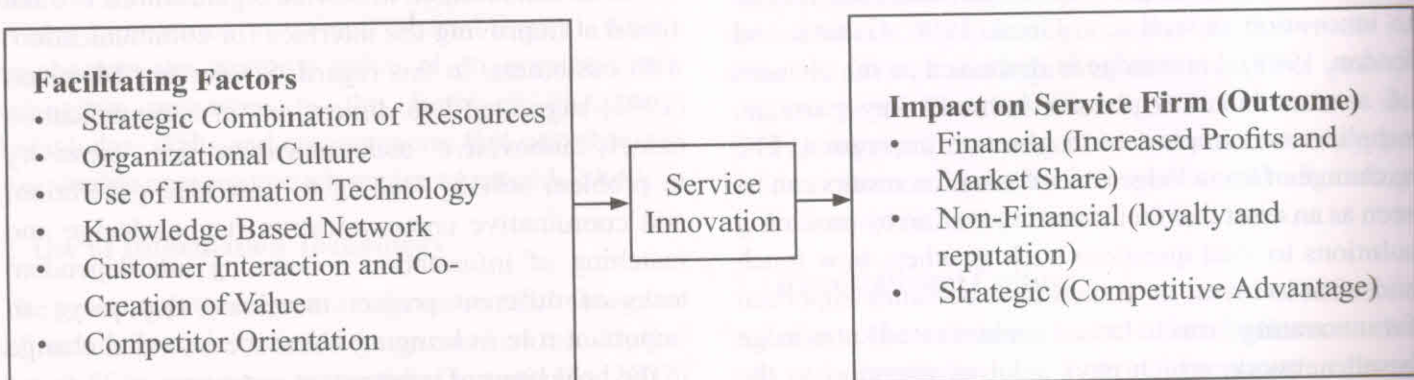
However, there has been an ongoing debate amongst researchers with respect to the effect of competitor orientation on innovation. Some researchers (e.g. Lukas and Ferrell, 2000) believe that such approach preclude radical service innovation development as competitor oriented firms usually intend to develop only incremental service innovation. As viewed by Day and Wensley (1998), too much focus on competitors, deflect attention from changes in market segment structures and as a result reduce the development of radical innovative abilities of a firm. Further, there has been a lack of consensus with respect to the role of customer interaction in competitive approach, with service management theory supporting the need of customer for service innovation (Normann, 2001) while studies (de Brentani, 1993, 1995) providing justification to weakly engage customers in innovation activities due to the problem of imitation by competitors. In all, it can be inferred that the relationship between competition and service innovation can be positive or negative depending on specific competitive perception and innovation activity.

THE RESULTANT IMPACT

The extant literature suggests the positive impact of innovation on firm's success (e.g. Calantone et al., 2002; Dilk et al., 2008; Grawe et al., 2009) that can be measured through three indicators namely, financial, non-financial and strategic (e.g. Zou & Cavusgil, 2002; Gupta and Zeithaml, 2006). While the financial indicators reflect a firm's performance in terms of revenues and profit, non-financial measures recognize factors such as reputation, loyalty and customer satisfaction. Distinct from these, strategic performance signifies a firm's market share and competitive position relative to major rivals. The positive impact of service innovation in enhancing service outcomes in the form of customer based performance (by delivering new service solutions), financial performance (revenues and profits through customer satisfaction and retention) as well as non-financial performance (loyalty and reputation) has been well supported by studies in the past (e.g. Anderson et al., 1994; Roberts and Amit, 2003). In essence, these performance indicators reflect the firm's ability to create value for its customers that subsequently impacts its performance through customer acquisition, satisfaction and retention. As suggested in the study by Paswan et al. (2009), in a situation of intense competition and technological change, creating superior value for customers through innovation in services is probably the most feasible option available to a firm to improve its overall performance.

The exhaustive review of past studies and the insights generated from the aforesaid discussion lead the researchers to propose the model of service innovation (Figure 1).

Figure 1: The Proposed Model of Service Innovation



IMPLICATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Though the extant literature provides an in-depth understanding of services marketing, research addressing the importance and application of innovative practices in services is still in a nascent stage. The present work makes a useful contribution in this regard by providing an integrated framework of the factors that facilitate innovation and positively contribute towards overall performance of a firm in service sector. By synthesizing the work of previous researchers in this area, this paper brings to the fore some interesting insights for service firms. First, the factors identified and discussed in the present study are cornerstones of a strategy for businesses aiming to introduce service innovation in their organizations. Given the nature of service setting and resource constraint, firms can prioritize their efforts in terms of selecting the relevant factors that could bring in innovation and help the firm to effectively enhance and sustain competitive advantage. Secondly, in a situation of high uncertainty, the successful implementation of innovative practices requires information processing, coordination and communication, all of which largely relies on IT resources. In services like healthcare, IT is increasingly used to handle complex diseases through improved technology at a moderate cost. Also, innovative IT solutions like 'cloud platforms' facilitates the maintenance of patient records in hospitals. Effective utilization of IT resources therefore, becomes a necessary consideration for firms in a need to innovate. Thirdly, unlike the developed nations where firms assign almost equal importance to both competition and customer demand in innovative service development, firms in the emerging economies feel a stronger impact of competition (Thakur and Hale, 2012). Competitive orientation thus emerges as an important enabler of innovation for service firms in a developing economy like India. Lastly, the present work draws attention towards the need to develop an organizational culture that is responsive to change and fosters innovative behaviour of both employer as well as employees. Customer participation and involvement within such culture can result in 'joint value creation', thereby improving the success of new service innovation.

In all, the proposed model of the present work provides useful directions for successful development and implementation of innovation in service firms. However, as is true with most of the researches, this study too is not devoid of limitations that open up opportunities for future research. The present work may be extended by empirically investigating the impact of each of the factors facilitating innovation on the overall performance of a service firm. It would further be interesting to replicate the model in different service settings so as to understand the relevance of each of the factor in contributing towards innovation in the context of a particular service. Finally, researchers may attempt to make the model more exhaustive for its use in future studies in this area.

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