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## Defining service innovation: A review and synthesis

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## ABSTRACT

Research on service innovation appears in several research disciplines, with important contributions in marketing, management, and operations research. Although the concept is widely used, few research papers have explicitly defined service innovation. This dearth of research is the motivation for the present study. Through a systematic review of 1301 articles on service innovation appearing in academic journals between 1979 and 2014, this article examines research defining service innovation. The study identifies the key characteristics within 84 definitions of service innovation in different perspectives (assimilation, demarcation and synthesis) and shows how the meaning of the concept is changing. The review suggests that the large variety in definitions limits and hinders knowledge development of service innovation.

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## 1. Introduction

Academic research is reflecting an increasing focus on service innovation (Dotzel, Shankar, & Berry, 2013; Ordanini & Parasuraman, 2010) through an increased number of publications and interest from diverse research disciplines (Carlborg, Kindström, & Kowalkowski, 2014; Toivonen & Tuominen, 2009). However, the concept of service innovation is broad and loosely defined and needs further exploration and development (Ostrom et al., 2010). The definition of service innovation is especially problematic because no common understanding exists regarding its meaning (Flikkema, Jansen, & Van Der Sluis, 2007; Toivonen & Tuominen, 2009).

Theory building on service innovation is still novel (Flikkema et al., 2007), which explains the rather vague and dispersed definitions of the core concept. For example, this vagueness can be seen in the interchangeable use of new service development (NSD) and service innovation (Menor, Tatikonda, & Sampson, 2002). In addition, the term service innovation is also used to acknowledge a new service, that is, an invention that has not been successfully introduced on the market (Schumpeter, 1934). Also, contrasting views exist regarding how new an innovation needs to be (Toivonen & Tuominen, 2009) and on how to evaluate the value of an innovation (Skålén, Gummerus, & Magnusson, 2014). By investigating how different definitions of service

innovation address these issues, the vagueness of the service innovation concept can be analyzed.

Through a systematic literature review, this study examines seemingly divergent perspectives of service innovation and identifies unique and shared characteristics in definitions of service innovation. The commonly used assimilation, demarcation, and synthesis perspectives on service innovation (Coombs & Miles, 2000) claim to be separate and distinct, and this study aims to identify how the definitions of service innovation have developed across perspectives. This article presents an exhaustive examination of research on service innovation, particularly research that addresses the problem of conceptualizing and defining service innovation. The basis of the article is a literature review of service innovation research published in academic journals between 1979 and 2014. These articles range across such disciplines as service management, marketing, business, social science, engineering, and health care research. The study uses network analysis and text mining to identify how research defines service innovation and discusses how the definitions of service innovation have developed on four issues (a process or outcome, invention versus innovation, new for whom and exchange value versus use value) across perspectives.

## 2. Defining service innovation

## 2.1. Different perspectives in service innovation research

To identify the differences in basic assumptions about service innovation, Coombs and Miles (2000) categorize existing research into three different perspectives: assimilation, demarcation, and synthesis.

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Studies using the assimilation perspective are the most numerous (Gallouj, 2002) and focus on the impact of new technology, which early studies considered the main driver of service innovation (Tether, 2005; Toivonen & Tuominen, 2009). The assimilation perspective can be used to study and analyze service innovation by using and adapting the same theories and instruments developed for traditional product innovation research, but without translation or modification (e.g., Evangelista, 2000; Miozzo & Soete, 2001). An important assumption of this perspective is that the service sector is becoming more technology- and capital-intensive (Gallouj & Savona, 2008). The assimilation approach can be traced back to Pavitt's (1984) sectorial taxonomy for innovation, in which services are supplier-dominated; in other words, service firms are passive recipients of innovations from other sectors.

The demarcation perspective, by contrast, suggests that service innovation fundamentally differs in nature and character from product innovation (Coombs & Miles, 2000). This perspective challenges the theoretical foundation for innovation studies (Drejer, 2004) and argues for new service-specific theories and concepts with which to understand and analyze service innovation (Barras, 1986; Hipp & Grupp, 2005; Tether, 2005). Demarcation researchers argue that studies on innovation have failed to recognize the specificities of services and have overlooked the important contributions that services make to products (Gadrey, Gallouj, & Weinstein, 1995). In particular, demarcation studies illuminate important elements that previous research has neglected (Drejer, 2004; Droege, Hildebrand, & Forcada, 2009). Research has emphasized the peculiarities of service output and processes, such as the intangible nature of services, the need for customer integration, and the contributions of organizational knowledge and non-technological elements (Hipp & Grupp, 2005). Drejer (2004) argued that one of the most important contributions of the demarcation perspective is the expansion of what can be considered an innovation.

The synthesis perspective is a critique of both the assimilation and the demarcation perspectives of service innovation (Coombs & Miles, 2000; Gallouj & Savona, 2008). The main idea of this perspective is that theories on service innovation should be broad enough to encompass innovation in both services and manufacturing (Coombs & Miles, 2000) and should provide an integrative perspective that is not limited to technological innovations. The neo-Schumpeterian view of service innovation (e.g., Drejer, 2004; Fliikkema et al., 2007; Sundbo, 1997; Toivonen & Tuominen, 2009) stresses that economic development is driven by the emergence of new combinations (innovations) that are economically more viable than previous solutions.

Even though all of these perspectives clearly contribute to the development of the broad research field of service innovation, one can argue that the differences in defining the concept and the understanding of what a service innovation is create confusion. Different perspectives of what service innovation entail and lead to different actions and use of different methods, as will be described in the next section.

## 2.2. Divergence about the definition of service innovation

Well-developed definitions are essential to scientific theory building (MacInnis, 2011; MacKenzie, 2003). MacKenzie (2003) stated that a major shortcoming of many research articles is that they fail to adequately define the focal concept(s) of the study. A definition can be seen as a statement that captures the meaning, the use, and the function of a term or concept (MacInnis, 2011). Precisely defining and labeling constructs is fundamental for knowledge sharing and perspective taking and enables others to understand the theory and be able to criticize and reproduce the observations. MacKenzie (2003) argued that a good definition should specify the concept's conceptual theme in unambiguous terms in a manner that is consistent with prior research and that clearly distinguishes it from related concepts. Failure to define a concept can produce a series of subsequent problems. A theoretical definition must also be followed by an operational definition that translates the verbal

meaning into a prescription for measurement to enable empirical research. Poor conceptualization makes it difficult to develop proper measurements and specify relationships between different concepts, which can undermine the study's credibility. Failure to specify the meaning of a particular concept leaves room for misunderstanding, vagueness, and doubt about the quality of the study.

The debate about what an innovation is and how to define it goes back almost a century (Schumpeter, 1934). Independent of conceptualization, articles differ greatly regarding what service innovation is and how it is used. Building on a Schumpeterian approach, Toivonen and Tuominen (2009 p. 893) defined service innovation as "a new service or such a renewal of an existing service which is put into practice and which provides benefit to the organization that has developed it; the benefit usually derives from the added value that the renewal provides the customers. In addition, to be an innovation the renewal must be new not only to its developer, but in a broader context." This definition highlights some interesting aspects of service innovation. First, the definition separates the outcome of service innovation from the process of development. Second, for an invention to become an innovation, it must be used and put into practice. Third, the invention must be new to one of the actors. Fourth, the invention must create value for some actor. In the following, these four issues will be discussed in detail.

Frequently, researchers do not make clear whether or not they are using the concept of innovation to refer to the innovation process or to the outcome of this process (Toivonen & Tuominen, 2009). Literature on new service development (NSD) commonly views service innovation as a process and often uses the terms NSD and service innovation interchangeably (Menor et al., 2002). For example, Biemans, Griffin, and Moenaert (2015, p. 2) stated that one should view NSD and service innovation as synonymous; they defined both concepts as a "process of devising a new or improved service, from idea or concept generation to market launch". Furthermore, Skålén et al. (2014) argues that the process of developing new services cannot be separated from the implementation and value creation of the new services, and that the two should be seen as different stages of service innovation. In this sense, Skålén et al. (2014) extend the definition of service innovation to include development and realization as well as the outcome. However, doing so creates confusion when talking about successful service innovation, since it is not clear if this statement refers to the successful process or outcome.

Schumpeter (1934) views innovation as a novel combination of new and existing knowledge, which should be clearly distinguished from inventions. Schumpeter argued that to differentiate the new offering from the process of its commercialization and the evaluation of the outcome. While an invention can refer to any new product, service, process, or idea, an invention must be introduced in the market and make a substantial profit before it can be considered an innovation because inventions in themselves have no inherent value. Gummesson (2014) argues that commercialization and diffusion of inventions is of more value to firms and societies than the initial invention. As a consequence, there is a need to distinguish between inventions and innovations.

Interesting differences occur in the interpretation of "new". Schumpeter (1934) argued that innovation not only creates value for the firm that developed it, but also changes the market in such a way that other companies imitate and follow, which leads to development of the branch. While this view of newness is fairly strict, recent developments in the service innovation literature have departed from this view towards regarding new as the degree of newness. Defining innovation based on the degree of newness or novelty is now a common way to categorize innovation (Sundbo, 1997; Toivonen & Tuominen, 2009). A common separation is to divide innovations into radical and incremental, where radical usually refers to innovations that are new to the world and incremental innovations are those that are new to the market (Sundbo, 1997). Following this view, innovations that are only new to the firm that adopts them should not be considered as innovations. Helkkula (2010) stated that companies and other external actors cannot

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