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Service innovation, renewal, and adoption/rejection in dynamic global contexts

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ABSTRACT

This *Journal of Business Research* special section includes 7 articles selected from papers presented during the 2014 Global Marketing Conference held July 15–18, 2014. The Conference's theme was "Bridging Asia and the World: Globalization of Marketing and Management Theory and Practice." This special edition introduces current topics concerning researchers and practitioners about service innovation, renewal, and adoption/rejection research. Following the conference's theme, this special edition emphasizes the need for educators and business leaders to make sense, plan, and interpret outcomes accurately of implementing service innovations in dynamic global contexts.

1. Introduction

While Schumpeter (1976/1942) describes the innovation process as creative destruction, J. K. Rowling offers a brilliant metaphor illustrating the process. Harry Potter witnesses Fawkes bursting into flames in Professor Dumbledore's office, and he is shocked by the event. Dumbledore explains, "Phoenixes burst into flame when it is time for them to die and they are reborn from the ashes" (Rowling, 1999, p. 207). The emergence of something from creative destruction's ashes illustrates the dawn of an innovation, but this act is just the story's beginning. The new Fawkes demonstrates amazing capabilities throughout Rowling's book series. Unfortunately, most innovations do not following Fawkes' example. History demonstrates many innovations fall short of their expectations or miserably fail. Innovations fail to catch the customer's attention for a variety of reasons, including implementation glitches, not solving a customer's problem, and unnecessary learning curves (see Liao, Chou, & Lin, 2015).

The service sector is important and growing globally. Developing countries' share of GDP originating from the service sector is 70–80% (Ostrom et al., 2010). Globally, the service sector is the major source of economic growth. These new jobs originate both from established companies adding services or solutions, and new companies competing in the service sector. Compared to goods manufacturers, a service-based company's growth and value creation differs significantly, making service innovation as a distinct area of inquiry very relevant (Vargo & Lusch, 2004). Facebook, Google, and Uber are examples of service innovation and rapid growth. Clearly, these companies demonstrate a different innovation model than any product-based company (e.g., Ford, GM, or SKF). These product-based companies required decades to grow to the stock value that the previously mentioned service-based companies achieved in a much shorter time span. How did these companies grow so fast in a short period of time? Service innovation entails the process of creating a new market for an invention, renewal of a market, and adoption/rejection.

In short, services differ from goods that create challenges for customers trying to recognize the new phoenix emerging from the ashes. Service delivery typically is a combination of uniform or standardized and tailored or customized properties. For example, all hotel guests expect clean rooms, but some customers are allergic to feathers and they require foam pillows. The former is a standardized expectation and the latter is a customized expectation. Furthermore, service customers perceive the production process as part of the service consumption, not just the outcome of that process, as in the traditional marketing of goods (Grönroos, 1998). Using product-based logic, customers consume the outcome of the production process. For a service, the customer's interest primarily is what the goods do for them (e.g., a car's transportation function versus a product made from metal, rubber, and plastic). In other words, a product is a service waiting to happen

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(e.g., transport function). The major implication is that services focus more on interactions with employees, products, or the company's online presence. These interactions are exchanges in which the interacting parties are involved in each other's practices (Grönroos & Ravald, 2011). The interaction's core is the physical, virtual, or mental contact that a company creates to engage customers and influence their flow and outcomes (Grönroos & Voima, 2013) that in turn creates an experience.

2. Capturing the scope of service innovation

Generally speaking, service innovation is a difficult concept to define. Given the service sector's size and scope, this difficulty is understandable. Service innovation cannot be one-dimensional. Fig. 1 shows service innovation's complexity. A key point is that distinctive innovations start off to serve different objectives. These objectives include differentiating, streamlining, helping, creating unique experiences, or monetizing in different ways. These objectives help to understand the type of service innovation development, including a service bundle innovation, process innovation, social innovation, experience innovation, or business model innovation. A service innovation also causes behavioral changes (e.g., behavioral innovation or brand perception changes/brand innovation). Although these categories are not mutually exclusive, the catalyst for any innovation project must start somewhere.

Common service innovation examples are often synonymous with brand names (e.g., Ikea, Starbucks, and Skype). Actually, these brands are not examples of *one* innovation; instead, they are *multiple* innovations or bundles of innovations that fit together and are organized under a brand name, a platform, or a *service bundle innovation.* This nexus becomes a system of linked activities (Johnson & Gustafsson, 2003). For example, Ikea's innovations include the flat packages, the long natural way (as called at Ikea), and their concept of democratic design (i.e., customer involvement throughout shopping and assembly). These innovation bundles make the service difficult to copy and help to differentiate the brand (see the axis towards the right in Fig. 1). To seamlessly fit into the company's overall service delivery, many innovation components are incremental. As a consequence, these elements alone are not recognized as innovations.

The concept of lean also connects to service innovation. Lean's core idea is to maximize customer value while minimizing waste. Simply, lean means creating more value for customers with fewer resources. Fig. 1 labels this concept as streamline. In healthcare, lean or *process innovation* is very common, and the purpose is simply to do more with less (Radnor, Holweg, & Waring, 2012). Process innovations generally have one major problem for companies in a competitive industry. Specifically, process innovations are difficult to maintain (i.e., easy for competitors to copy). While tangible product changes typically are proprietary and legally protected by patents, process type service innovations are easier to emulate. The shelf life for a service innovation is not long because competitors adapt.

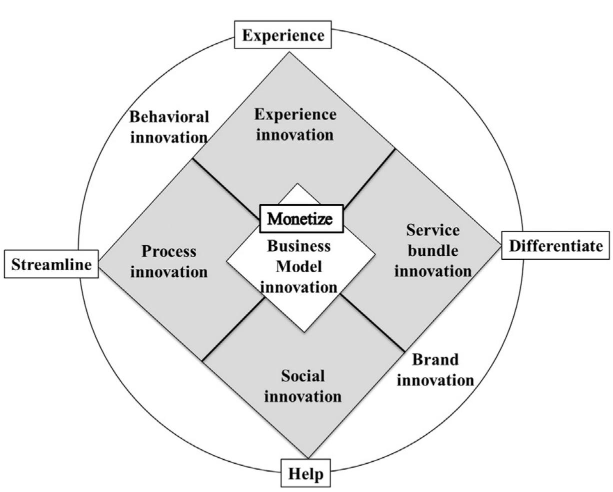

Fig. 1. Capturing the scope of service innovation.

One major challenge for manufacturing based companies (e.g., Volvo Trucks, GE, SKF, Tertra Pak, or Kone) is to become less dependent on their goods base and to monetize their competence differently. Such transition necessitates a major shift in their operational model requiring a *business model innovation*. This shift's key driver is market turbulence or creative destruction that requires these companies to move closer to their customers and solve more of their customers' problems (Gebauer, Gustafsson, & Witell, 2011). The simple logic is mature product categories make hardware differentiation problematic. Creating a unique service delivery becomes the best strategy to distance a company's offering from competitors. In the case of Volvo Trucks, the company helps their customers use less fuel, optimizes maintenance, or even takes over and runs complete fleets for their customers. In some cases, the products become so complex that the customers cannot operate them efficiently. Outsourcing to the supplier becomes the best alternative.

Given the emphasis of service processes and the customer's role in production, a natural focus is the service's experiential part or *experience innovations.* Some researchers metaphorically use the theater to describe service delivery (Grove & Fisk, 1992). Backstage, leading service companies remind their employees that entering the servicescape means they go onstage (see Shostack, 1992). The underlying idea is that external stimuli affect the senses and create an experience within customer's mind. For instance, a customer smells the scent of fresh baked bread and connects this event to a previous life experience. Furthermore, Abercrombie & Fitch builds their business around creating service encounters with special scents and their employees' physical appearance. Creating a distinctive experience is difficult to copy and enhancing the customer's experience helps brick and mortar stores survive against online competition.

In Fig. 1, the opposite of experience is help. *Social innovations* aim to help as many people as possible. These service innovations are omnipresent. Examples of social innovations include distributing food nearing the expiration date to people in need, making micro loans that empower people in under-developed regions to start companies, or creating systems that distribute and finance clean water. One major challenge for social innovation is the business model (Gebauer & Saul, 2014). Normally, the goal of these efforts is to make them self-sustainable in the long run and to grow the initiative rather than make a profit.

Supporting Fig. 1 are two more innovation types that differ from the rest, *behavioral and brand innovation*. All innovations require customers to change their routines. Maintaining the status quo does not require learning something new, but innovations can be as uncomfortable as switching costs. The introduction of Microsoft's Windows 8 operating system is a classic example of an innovation creating an unnecessarily long learning curve (Sherwin, 2013). However, sometimes behavioral changes cause new innovations. Multiple examples of this phenomenon occur in the collaborative economy or sharing economy. A collaborative economy typically uses a platform connected to Internet in order to efficiently match people's wants with people's haves. For example, Airbnb enables people to rent out their homes or spare rooms, and Uber connects people who need rides with people who have cars. Table 1 shows other examples of these collaborative ideas. These phenomena likely cause turbulence and destruction in several sectors, including transportation and lodging industries.

Finally, Fig. 1 suggests that introducing innovations cause customers to change their brand perceptions just like innovations change customer behavior. For example, Victoria's Secret changed from selling lingerie