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Identifying categories of service innovation: A review and synthesis of the literature

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ABSTRACT

Service innovation acts as society's engine of renewal and provides the necessary catalyst for the service sector's economic growth. Despite service innovation's importance, the concept remains fuzzy and poorly defined. Building on an extensive and systematic review of 1046 academic articles, this research investigates and explores how service innovation is defined and used in research. Results identify four unique service innovation categorizations emphasizing the following traits: (1) degree of change, (2) type of change, (3) newness, and (4) means of provision. The results show that most research focuses inward and views service innovation as something (only) new to the firm. Interestingly, service innovation categorizations appear to neglect both customer value and financial performance.

1. Introduction

In today's business landscape, service firms must continuously renew their processes and offerings to remain competitive (Thakur & Hale, 2013). Service innovation operates as the engine of economic growth and pervades all service sectors. Spurred by an innovation focus, service firms have grown tremendously over the past decade. Examples of service innovation growth include Internet services (e.g., Twitter and Netflix), industrial giants (e.g., IBM and GE) who have re-vitalized their competitive positions by focusing on customer service, and restaurants (e.g., Chipotle and Starbucks) and other retailers (IKEA and Amazon) who re-define their businesses by creating new customer experiences. Tremendous service innovation growth also occurs in the social services sector, or innovations targeting the under-privileged, (e.g., Mulgan, Tucker, Ali, & Sanders, 2007), and the public sector (e.g., Windrum & Koch, 2008). Despite the considerable attention given to studying service innovation, research still struggles to answer the most basic question: What is service innovation?

Commonly, categorizations addressing degree of change (e.g., radical versus incremental) describe service innovation. However, this approach does not identify what part of the offering qualifies as the service innovation. One traditional view of innovation builds on technological breakthroughs (Schumpeter, 1934; van der Aa & Elfring, 2002). Inferring service innovation only as a technology breakthrough limits the scope and impact of the concept and hinders theoretical development. Arguably, service innovation encompasses a much broader perspective. Ostrom et al. (2010) suggest that service innovation creates value for customers, employees, business owners, alliance partners, and communities through new and/or improved service offerings, service processes, and service business models. Consequently, adding service to innovation introduces new or alternate perspectives. The question is whether new perspectives on service innovation truly provide a better explanation for the growth in services and why a new service succeeds or fails (Witell et al., 2015).

Traditional service innovation categorizations separate radical and incremental innovations (see Gallouj & Weinstein, 1997) and product and process innovations (Vaux Halliday & Trott, 2010). Ostrom, Parasuraman, Bowen, Patricio, and Voss (2015) recommend identifying how various categories of service innovations interrelate (e.g., service-product to service-process). More recent categorizations propose that service innovation differs from traditional innovation perspectives in aspects such as the customer's changing role (Michel, Brown, & Gallan, 2008), Internet use (Dotzel, Shankar, & Berry, 2013), and new business

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models (Hsieh, Chiu, Wei, Yen, & Cheng, 2013). Gallouj and Savona (2008) argue that a materiality bias exists in innovation research – ignoring the immaterial aspects – leading to inaccurate measurements of the service industry's economic impact and performance. The evidence suggests that ignoring a service innovation's uniqueness leads to underestimating the innovation's impact in the service sector. Further, Gallouj and Savona (2008) question the existing categorizations and suggest a need for new categorizations to better understand the nature of service innovation.

The present study investigates service innovation's meaning through an extensive literature review and synthesis of the concept's various categorizations. A review of 1046 research articles identifies and defines the various service innovation categories and provides a platform to analyze how these categories help to understand the overall concept. Investigating service innovation categories identifies themes, explores how they differ, and explains how the different themes comprise a whole (MacInnis, 2011). This study contributes to the service innovation literature in two ways. First, analyzing categories provides a different perspective on service innovation. Previous literature reviews primarily employ assimilation, demarcation, and synthesis perspectives to summarize service innovation research (e.g. Carlborg, Kindström, & Kowalkowski, 2014; Coombs & Miles, 2000; Droege, Hildebrand, & Forcada, 2009; Ordanini & Parasuraman, 2010). An alternative perspective provides new insights and a greater understanding. Second, this study clarifies "what" a service innovation is – an innovation process output – that contrasts with other literature reviews that concentrate on both the "what" and the "how" of service innovation (e.g.Carlborg et al., 2014; Ordanini & Parasuraman, 2010). Focusing on the "what" of service innovation helps provide an in-depth analysis of the service innovation concept and distinguishes service innovation from related concepts, such as new service development. From 43 service innovation categorizations, four unique themes emerge: (1) degree of change, (2) type of change, (3) newness, and (4) means of provision. Arguably, most service innovation categorizations focus inward and view service innovation as something internally new to the firm. Crucially, the literature poorly addressed how service innovations affect customer value and financial performance.

2. Service innovation

2.1. Defining service innovation

Schumpeter (1934) argues that economic development is driven by innovation. He makes an important distinction between invention and innovation and argues that inventions have no inherent value. Instead, Schumpeter defines innovation as a separate activity through which inventions are carried out in the market for a commercial purpose. Thus, for an invention must be introduced in the market and generate a substantial profit in order to become an innovation. Schumpeter argues the process of developing a new offering must be distinguished from the outcome or the commercialization. Schumpeter (1934 p. 66) defines innovations as the "carrying out of new combinations." Building on his work, researchers develop the Schumpeterian view of service innovation (see Gallouj & Savona, 2008; Windrum & García-Goñi, 2008). This view emphasizes recombinative innovations as central to service innovation and suggests that they frequently appear in new firms (Gallouj & Weinstein, 1997). According to Toivonen and Tuominen (2009), a Schumpeterian view of service innovation assumes that innovation: (1) is carried into practice, (2) provides benefits to the developer, and (3) is reproducible. Interestingly, Schumpeter (1934) considers customer needs as given. Developers first initiate economic change and then educate users about the new offering's benefits. Implicitly, this development pattern represents an inside-out perspective. Building on a Schumpeterian perspective, Toivonen and Tuominen (2009 p. 893) suggest "service innovation is 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." Following this reasoning, an innovation must be new to both the developer and a broader set of actors. The Schumpeterian view of service innovation emphasizes the central role of financial returns (Drejer, 2004) but does not account for customer value.

Prior studies use different methods to explain and define service innovation. Whereas some studies used an overall definition to state the meaning of service innovation, other studies include dimensions or categories to define the concept (Gallouj & Weinstein, 1997). An overall definition explains service innovation by describing the innovation's core characteristics (e.g., Ostrom et al., 2010). For example, the Organisation for Economic Co-operation and Development (OECD) (2005) defines service innovation as launching a new or significantly improved product (good or service) or process, a new marketing method, or a new organizational method in business practices, workplace organization, or external relations. Menor and Roth (2007) suggest that service innovation – either an addition to current services or a change in the delivery process – is an offering not previously available to customers that requires changes in the competences applied by service providers and customers. Frequently, the overall definitions are rather general and suggest some core characteristics are insufficient for identifying service innovation in practice.

Alternatively, a service innovation may involve changes in several dimensions of an existing service. This view follows the Lancasterian view in which a service is based on the provider's characteristics, client competencies, technical characteristics, and final users' service characteristics (Gallouj & Weinstein, 1997; Saviotti & Metcalfe, 1984). This multidimensional view is more prominent in recent research (see Paallysaho & Kuusisto, 2008; Zolfagharian & Paswan, 2008). Using changes in dimensions to define service innovation frequently depends on multiple changes to an existing offering. The plethora of dimensions suggests that service innovation is becoming a broader concept and firms can innovate more than prior research suggests.

2.2. Categories of service innovation

Another way to understand service innovation is through categories or classifications that distinguish by innovation type. Each category contains a number of objects that are considered equivalent; therefore, categorization becomes a system comparing how different categories relate to each other (Rosch, Mervis, Gray, Johnson, & Boyes-Braem, 1976). Schumpeter (1934) proposes several different innovation forms: introduction of a new good, introduction of a new production means, and the discovery of a new source of raw materials, new markets, or new organizations. Taking a Schumpeterian view of service innovation, Drejer (2004) emphasizes the dichotomy between product and process as two main service innovation categories. In addition, the radical and incremental innovation dichotomy is a common service innovation categorization that suggests bifurcating innovations based on the degree of change. To use a dichotomy to separate mutually exclusive types of innovation is common. Several benefits exist from developing and using categorizations because they create useful heuristics and provide a systematic basis for comparison and operationalization (Smith, 2002). Lovelock (1983) emphasizes the practical relevance of categorizations in marketing and suggests that distinctions can benefit different types of marketing strategies and management tools. Different marketing and innovation strategies might be relevant for different service innovation categories (Hsieh et al., 2013). However, using different categories in research can be troublesome because operationalizing them might be difficult. Hsieh et al. (2013) argue that most studies using service innovation categorizations do not provide specific examples of the different category types despite the importance of such details. Frequently, categories are neither exhaustive nor mutually exclusive and they are typically based on arbitrary or ad hoc criteria (Smith, 2002). Arguably, discerning these alternative categorizations is essential