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Service Innovation: A New Conceptualization and Path Forward[1]

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Abstract

Service innovations challenge existing offerings and business models, shape existing markets, and create new ones. Over the last decade, service research has shown increasing interest in the concept of innovation and should by now have reached maturity and created a strong theoretical basis. However, there is no coherent theoretical framework that captures all the facets of service innovation, and to move service innovation research forward, we must revisit the key assumptions of what an innovation is. To enable this, the present article addresses three fundamental questions about service innovation: (1)What is it and what is it not? (2) What do we know and what do we not know? and (3) What do we need to know to advance service research? By doing so, this article offers an updated and comprehensive definition of service innovation and provides a research agenda to suggest a path forward.

Keywords

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service innovation, research agenda, new service development, service design

The rapidly evolving complexity and growth of service innovations presents a major challenge for service research. Despite the efforts of new service development (NSD) and service design theories to explain how service innovations emerge, these frameworks fail to adequately reflect and explain organizational and empirical practice. In service research, stimulating knowledge on service innovation remains a strategic priority. Accordingly, Ostrom *et al*. (2015) state, "we need to have a better understanding of innovation in the service, manufacturing, and digital domains and how various types of innovation in these areas interact to inform value creation and address new markets" (p. 131). We question how the service research community has responded to this challenge. We see a research field that is heterogeneous with little or no agreement on the key assumptions and core concepts.

Due to the failure of service research in cumulative knowledge development and inability to agree on key assumptions, the purpose of the present article is to discuss three fundamental questions about service innovation; (1) What is it and what it is not? (2) What do we know and what do we not know? and (3) What do we need to know to advance service research? By revisiting existing knowledge and highlighting disagreements and conceptual unclarities, the present article provides a research agenda for service research on service innovation.

WHAT SERVICE INNOVATION IS AND WHAT IT IS NOT

The debate about the nature of innovation and how best to define it is by now almost a century old. Traditional innovation research often characterize *innovation* as a novel combination of new and existing knowledge. Any new product, service, process, or idea can be called an *invention*. In order to become an innovation, however, the invention must be introduced to the market and make a substantial profit (Schumpeter 1934). From a firm's perspective, it makes little sense to develop a service without regard to the financial outcome. However, defining a service innovation in terms of its monetary value may fail to capture its essential nature, as financial outcomes may not always be a relevant indicator of success.

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Furthermore, as well as creating value for the firm that develops it, an innovation also changes the market, prompting other companies to imitate and follow, which leads to the emergence of a new market (Schumpeter 1934). While this definition of *new* is relatively strict, recent developments within service research suggest that service innovation often is interpreted simply as "a new service" (Witell *et al*. 2016). Most discussions of what is meant by *new* tend to focus on the firm's perspective. That is, what is new for the firm rather than for the customer (Snyder *et al*. 2016). This implies that service innovations tend to be incremental rather than radical, and that alignment with existing markets, sectors, or offerings is more important than uniqueness. Again, this is problematic, as it implies that all new services, no matter how small, can be regarded as service innovations.

The term service innovation is also used to describe the process of developing a product or service. These descriptions muddles the separation of the innovation and the process and has resulted in terms like *service innovation*, *NSD*, and *service design* to be used interchangeably (Biemans, Griffin, and Moenaert 2015). We think that research on service innovation needs to move beyond this and evolve into a distinct concept. To generate new knowledge and facilitate theory-building, we need to understand the processes of creating and diffusing service innovations and, specifically, the role of customers' and other actors' value-creation practices. Furthermore, there is little explanatory power in conceiving of service innovation merely in terms of improving the process of developing and designing new products and services; if the latter is the case, the term service innovation becomes meaningless as it essentially indicates that service innovation is the same as NSD.

Figure 1 (Panel A) illustrates the current lack of distinctiveness between the concepts (service innovation, NSD and service design) in service research and practice. Instead of introducing new concepts that are complementary, service research now has completely overlapping concepts. In essence, all three concepts capture the development of a service.

Both NSD and service design build on a clear customer focus, and the goal is to use knowledge from customers to create a better offering. However, we would argue that they should be distinct concepts that all are important, yet different from each other. As indicated in Figure 1 (PANEL B), NSD could be understood and defined as the process of developing a new product or service for a market. Service design on the other hand is concerned with systematically applying design principles and methodology to the development of services. In contrast, service innovation should emphasize the outcome of a development process rather than how it was realized. Such clear distinction between the three core concepts would enable scholars to build a coherent framework on service innovation that builds on knowledge acquired in all these research traditions.

- Insert Figure 1 about here -

WHAT WE KNOW AND WHAT WE DO NOT KNOW

During the last ten years, there has been quite a number of attempts to describe, summarize, and synthesize the literature and research on service innovation, resulting in a number of review articles. These reviews illustrate a developing field, encompassing differing perspectives, definitions, conceptualizations, and frameworks (Carlborg, Kindström, and Kowalkowski 2014; Snyder *et al*. 2016; Witell *et al*. 2016, Anton and Breidbach, 2018). Taken together, these literature reviews suggest that the research field is growing and at the same time becoming more heterogeneous. The common theme across each of these reviews is the treatment of service innovation as an empirical phenomenon without a theoretical conceptualization that captures its essence.

In addition, as noted earlier, the concept of service innovation is poorly defined and understood, and clarity has not improved over time. According to Carlborg, Kindström, and Kowalkowski (2013), "the service innovation concept becomes all-encompassing, [and]

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identifying the exact loci of service innovation research becomes more difficult" (p. 13). Witell *et al*. (2016) conclude that although the concept of service innovation is widely used, few studies have explicitly defined and explained it. The obvious problem is that, despite the extensive literature, service innovation research is driven more by empirical observation rather than theory development (Anton and Breidbach, 2018). More importantly, service innovation as a phenomenon or concept has not been linked to important performance indicators such as customer satisfaction, loyalty, financial performance, the creation of new markets, or other key indicators such as health or wellbeing (Snyder *et al*. 2016).

Finally, it seems to us that, in service innovation research, theory development is often little more than giving old concepts new names, suggesting that we are creating a new language but not necessarily new knowledge. Although new language is important, there is an even greater need for new knowledge and practices. However, most of the relevant journals seem to favor new attempts to address service innovation as a phenomenon, and in the process discouraging cumulative knowledge development. In general, researchers on service innovation fall into two distinct types: one is interested in theory development while the other is mainly interested in empirical research mostly in the form of case studies. Importantly, there seems to be a regrettable lack of communication or cooperation between these two types of researchers, and neither type seems interested in all stages of knowledge development. Bringing these perspectives together could help address knowledge gaps in the areas of service innovation, which we highlight in the next section.

WHAT WE NEED TO KNOW: A RESEARCH AGENDA

Despite recent developments, there is still much work to be done to understand service innovation. Summarized in Table 1, we contend that four key issues should be in focus to guide further service innovation research. These are (1) defining service innovation, (2)

identifying alternative explanations, (3) operationalizing key concepts, and (4) identifying the effects of service innovation.

Defining service innovation

Rather than continuing the present trend of broadening the definitions of NSD, service design, and service innovation to encompass all related processes and the service lifecycle, we see a need for more distinct definitions and operationalizable constructs to facilitate the investigation of relationships between core concepts. Then, we can begin to alleviate the current conceptual blurriness and develop meaningful conceptualizations that are of greater relevance to managers and society. The present article takes a first step in that direction by providing a new, working definition of service innovation. Furthermore, as seen in Figure 1 (PANEL B), we suggest a way to distinguish the core concepts that may help to guide further work and explain how NSD, service design, and service innovation are related.

    More specifically, we argue that the definition of service innovation should not include the development process. Thus, by integrating core tenets from the broader innovation literature as well as recent discussions on service innovation, we contend that service innovations can be defined by a few core tenets:

(1) It must focus on the outcome and not the development process.

(2) The service must be truly new and not simply represent a development of an existing service.

(3) It must create economic or non-economic value for some stakeholder

Taken together, *we define service innovation as a new process or offering that is put into practice and is adopted by and creates value for one or more stakeholders*.

We hope that future research can build upon and further develop this definition, which should allow for the field of service innovation to develop unique contributions that are distinct from discussions of development and design.

Identifying alternative explanations

Service innovation is a heterogeneous research field, and with the growth of the service sector, it is becoming more so. For example, companies such Airbnb, Uber, and Spotify are often mentioned in service research as examples of service innovations that have disrupted markets. However, this namedropping approach is usually associated with relatively shallow research that is poorly informed by theory. We call for a common understanding of service innovation that is grounded in a fundamental theory or theories about the mechanisms of service innovation. The prevailing emphasis on NSD and service design and further definitional inclusiveness seems likely to hinder the emergence of alternative explanations of how service innovations are developed. Additionally, most of the service design debate and research has been carried forward through case studies with limited theoretical underpinnings and statistical generalizations. Instead, we suggest that frameworks from more established theories such as entrepreneurship, social innovation, or open innovation may provide a better foundation for developing this kind of knowledge. Anton and Breidbach (2018) offer further examples of theoretical lenses that may aid theoretical development in both service innovation and service design, but these theories have only been tested on an ad hoc basis.

Operationalizing key concepts

Recent knowledge development has focused more on developing or rebranding theoretical concepts than on operationalizing key concepts that explain service innovation. There are of course noteworthy exceptions, such as Ordanini and Parasuraman (2011), who operationalized, investigated, and tested a framework based on SD logic. We contend that

much of the existing research that focuses on broadening theoretical concepts has actually made it more difficult to operationalize key concepts. Consequently, there is a need for new research initiatives that develop new concepts and meaningful scales for measuring service innovation and its impact on customers and markets. This is a prerequisite for enabling further knowledge development about service innovation.

Identifying the effects of service innovation

Finally, we need to know more about the effects of service innovation on key outcomes for customers, firms, and other actors, and for society at large. While factors such as customer experience, business models, and efficiency are known to contribute to the success of service innovations, much less is known about their relative importance. Additionally, there is a lack of research on innovations that is not linked to monetary value (e.g., social innovations or well-being) and what makes them successful. Instead of empirical illustrations and anecdotal case studies, research must shift toward more extensive studies that can provide a more accurate view of the effects of service innovations on customers, employees, firms, ecosystems, and society. These more rigorous studies should aim to build comprehensive data sets, utilizing qualitative, quantitative, and mixed methods.

- Insert Table 1 about here -

CONCLUDING REMARKS

Stimulating service innovation is a strategic research priority (Ostrom *et al*. 2015) that has attracted increasing research interest over the last decade. However, knowledge has been built in silos and not through cumulative knowledge development. Many of the exciting contributions on service innovation have been carried out outside the domain of service research. In reality, research on service innovation within its own domain has had little impact outside of it. We call for the editors, researchers, and reviewers of the major service journals

to encourage additional work and to move toward cumulative knowledge development on

service innovation. This would enable service researchers to develop a solid knowledge base

and be acknowledged as the source of the most exciting contributions on service innovation.

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Author Biographies

Anders Gustafsson is a professor of marketing at the BI – Norwegian Business School. He is also a distinguished professorial fellow at the University of Manchester's Alliance Manchester Business School (AMBS). He is part of Center for Services Leadership (CSL) Global Faculty (Arizona State University) and International Faculty at the Service Innovation Alliance (University of Queensland). He is the first international president for AMA's (American Marketing Association) academic council and a recipient of the Christopher Lovelock Career Contributions to the Services Discipline Award.

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Table 1. What do we need to know? A research agenda for service innovation

Research area	Core concepts	Research questions	Notes on research methodology
Defining service innovation	Service innovation, NSD, service design	- What are the core characteristics of service design, NSD, and service innovation? - How do service design, NSD, and service innovation relate to each other?	Much of the work on relationships between service design, NSD, and service innovation has been conceptual or anecdotal/case study-based. This has resulted in concepts that are overlapping.
Alternative explanations	Entrepreneurship, open innovation, social innovation, business model innovation	- To what extent can theoretical models such as entrepreneurship and open innovation explain the development, outcomes, and market introduction of service innovations? - For what characteristics of service innovations (such as social, experience, business models) do alternative models provide a better or different explanation?	We argue that extensive qualitative research is needed, using multiple theoretical lenses to identify how different theories explain the mechanisms of service innovation. Methods such as fsQCA can be used to identify conditions in which theories provide alternative explanations.
Operationalization	Service innovation, NSD, service design, business performance	- Can we develop reliable and valid scales of key constructs? - Can we develop alternative ways of measuring service innovation and their effect(s)?	Existing operationalizations of service innovation do not capture theoretical developments in service innovation research. Existing scales and ways of measuring service innovation need to be updated, or we must conclude that the latest theoretical development is wrong.
Identifying the effects of service innovations	Service innovation, business performance	- What are the effects of NSD and service design on the new service and/or service innovation? - What are the effects of service innovations with different characteristics on customers, firms, and value networks? - How can we improve understanding of service innovations impact on different types of performance outcomes (e.g., monetary, well-being, social)?	Traditionally, this research has been built on single-source data. One challenge is to build extensive data sets that do not suffer from common method bias and key informant bias. There is a need for comprehensive empirical studies using qualitative, quantitative, or mixed methods.

Figure 1. Distinction between new service development, service design, and service innovation.
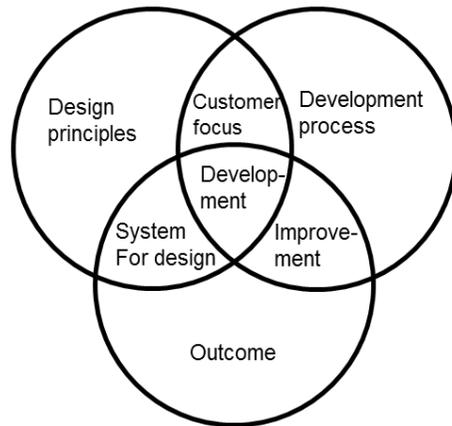
Panel A. The current view of core concepts
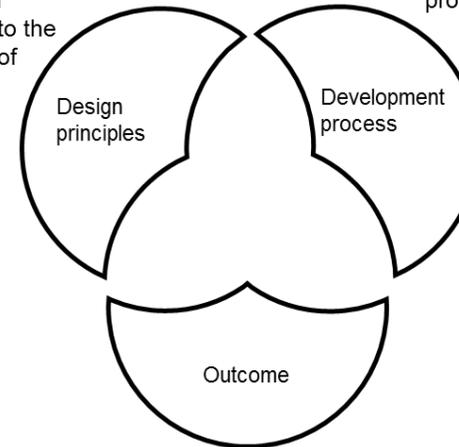
Panel B. A suggested view of core concepts

Notes: Panel A. The Venn diagram illustrate the conceptual overlaps between the three concepts (service innovation, NSD and service design).

Panel B. By eliminating the overlaps and providing distinct definitions of core concepts, service research can build a stronger theory of service innovation. Definitions of the concepts are seen below each concept in PANEL B.