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contexts

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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.

**Keywords:** innovation, service, service innovation adoption, service innovation failure

## 1. Introduction

While Schumpeter's (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 percent (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 which 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 (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. Figure 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, 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 Figure 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.

### **Figure 1 here**

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. Figure 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.

One major challenge for manufacturing based companies (e.g., Volvo Trucks, GE, SKF, Tetra 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 and Fisk, 1992). Backstage, leading service companies remind their employees that entering the servicescape means they go on-stage (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 Figure 1, 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, to 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 & Sael, 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 Figure 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, Figure 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 to male customers and to focusing on female customers. Needless to say, this shift impacts the brand's perception.

Recent innovations offer clues as to how services will develop in the future. One development likely to affect future service innovation is the Internet of things. Technology's advancement trajectory suggests future interconnectedness will move beyond motor vehicles to include everything from traffic lights, merchandise in stores, and appliances in people's homes. As technology performs more functions, can the service sector continue growing? The short answer is the service sector always has growth potential. The most common service innovations are recombinative—innovations that recombine existing services (Gallouj & Weinstein, 1997). Consequently, the service sector should remain robust service innovation will remain vital.

**Table 1 here**

### **3. Contributions to this special edition**

The conference theme emphasizes the need for educators and business leaders to make sense, plan, and interpret outcomes accurately of implementing service innovations in dynamic global contexts. The service industry is growing faster than manufacturing in most countries, so the need to better understand innovation is paramount. Service innovation, renewal, and

adoption/rejection research covers a broad spectrum of issues to implementing and managing this growing research area. This special edition offers seven research papers that examine different aspects of service innovation. Research topics range from understanding and implementing to managing and protecting service innovations.

### *3.1. Understanding service innovation's scope*

What is service innovation? Traditionally, innovation builds on technological g service innovation to managing and protecting breakthroughs (e.g., Schumpeter, 1976/1950). Services' intangible properties suggest the need to broaden innovation's scope. Snyder, Witell, Gustafsson, Fombelle, and Kristensson review 1,046 research articles to provide a platform for understanding service innovation's major themes. The authors identify four unique service innovation categorizations that emphasize: (1) degree of change, (2) type of change, (3) newness, and (4) means of provision. Findings suggest that prior research focuses on the innovating firm's view and neglects customer value and financial performance as determinants of innovation. Value creation rather than technological innovation offers a more compelling view of service innovation.

### *3.2. Developing service innovations*

How should an organization develop a new service innovation? While integrating stakeholders into the process probably associates with more positive outcomes, the literature offers little guidance (e.g., Ordanini & Parasuraman, 2010). Ommen, Blut, Backhaus, and Woisetschläger examine the franchisor and franchisee relationship to assess the latter's stakeholder participation in the innovation process. Fuzzy set qualitative comparative analysis (fsQCA) assesses six participation quality dimensions. Results show that more than one causal

recipe leads to favorable outcomes and a complex interplay of the participation dimensions relates to positive stakeholder involvement and acceptance.

### *3.3. User behavior changes relating to an innovation*

Smartphone usage is a widespread phenomenon. Consumers rely on their mobile devices for many innovative solutions. An interesting development is using smartphones rather than credit cards for purchases. Prior studies demonstrate that consumer spending habits differ when using cash versus credit cards (e.g., Shimp & Moody, 2000). Falk, Kunz, Schepers, and Mrozek extend this line of inquiry by exploring how mobile payment use affects consumer buying behavior. Specifically, they investigate the relationship between payment method, basket level price comparisons, and overall price image (OSPI) of retailers. They conclude that mobile payments affect consumer's overall price image (OSPI) of retailers.

### *3.4. Business to business and service innovation adoption*

Prior research on self-service technology focuses on risk perceptions relating to the business to consumer interface (B2C) (e.g., Dabholkar, 1996). In the business to business (B2B) context, the limited research tends to focus on remote product support delivery (Mathieu, 2001). To better understand the B2B context, Paluch and Wunderlich investigate the risk type emergent in B2B technology service encounters and whether or not customers and providers perceive these risks differently. Data from long interviews of 49 customers and provider employees located in China, Germany, Sweden, and the U.S. inform this study. Six risk categories surface from the data: privacy, functional, financial, psychological, temporal and social. Further, the findings suggest different perceptions of risk (i.e., gaps) between customers and providers of technology-

based service innovations. Providers able to reduce the risk perception gaps likely benefit from higher innovation adoption rates.

### *3.5. Consumer resistance to adopting service innovations*

While the innovation literature focuses on adoption and diffusion (e.g., Gatignon & Robertson, 1989), innovations often meet consumer resistance (see Wu, 2014). To better understand why consumers are resistant to adopting new innovations, Laukkanen examines how five theory-driven adoption barriers and consumer demographics influence adoption versus rejection decisions for Internet and mobile banking. Findings show that the value barrier is dominant in consumers' intent to adopt Internet banking. Younger consumers and males also relate to higher adoption rates.

### *3.6. Unconscious barriers to service innovation adoption*

Researchers often examine resistance to innovation as a conscious or active action based on functional and psychological barriers following new product evaluation (e.g., Patsiotis, Hughes, & Webber, 2013). Zaltman's (2003) contention that up to 95 percent of thinking occurs unconsciously makes a strong case for exploring passive innovation resistance. Heidenreich, Kraemer, and Handrich explore how passive innovation resistance affects new product adoption. Results from a scenario-based experiment provide empirical evidence that passive resistance inhibits new product adoption. Comparing cognitive, situational, and dual passive resistance, findings suggest that the latter serves as the strongest inhibitor for passive innovation resistance. These results suggest passive resistance is a multidimensional construct and managers need to consider different strategies depending on the type of passive resistance the target market exhibits.

### *3.7. Managing service innovations*

Leading service providers typically are at the forefront of service innovation. Not surprisingly, success tends to attract attention of competitors who try to replicate their competitor's innovating formula for superior service. Taking this strategy to an extreme, some unscrupulous businesses create mimic service offerings (e.g., Staake, Thiesse, & Fleisch, 2009). Rosenbaum, Cheng, and Wong employ grounded theory to examine how consumers view counterfeit retail establishments in China. Savvy Chinese consumers who patronize these knockoff firms report convenience and the price differential are primary decision drivers. Interviews also reveal consumers' primary concern is quality control, particularly with food and beverages. Although Chinese law protects intellectual property rights, the authors recommend cooperating with the knockoff competitors rather than litigation because the latter's outcome tends to be an effective deterrent.

## **4. Conclusion**

The research articles provide important insights to challenges facing service innovation. Research findings offer guidance to help practitioners compete in a dynamic global environment. Change appears to be the only constant, and businesses need to continue creating, evolving, and adapting to discover new and better ways to deliver and manage services to customers. Firms must embrace the notion that innovation management is necessary to maintain and potentially increase market share. These special edition articles provide compelling evidence that watching on the sidelines leaves one's firm in the ashes of change.

For academics, these research articles serve as a catalyst for pushing theoretical boundaries in service innovation research. Not all customers view an innovation the same way.

Understanding the customer base helps devise strategies for creating and managing service innovations more effectively. Clearly, this process requires a better understanding of the internal organizational dynamics and external customer relations. These research papers use a variety of research methodologies and further investigation of services innovation. Methodological diversity and mixed method approaches provide opportunities to advance theory in new directions.

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**Table 1. Collaborative ideas and examples\***

<b>Area</b>	<b>Activity</b>	<b>Examples</b>
Goods	Pre-owned goods	ebay, craigslist
	Bespoken goods	Etsy, shapeways
	Loaner products	Pley, rocksbox
Food	Shared food	feastly, VizEat
	Shared food preparation	Shareyourmeal, Munchery
Service	Personal	Timebanks, Homejoy
	Business	Cloudpeeps, crowdspring
Transportation	Driver optimization	Zettadriver, Sherpashare
	Loaner vehicles	Bortbound, Drivenow
	Transportation services	Uber, bla-bla car
Space	Rental optimization	Beyond, Smart host
	Work space	Sharedesk, Peerspace
	Personal space	Homeaway, airbnb
Money	Crowdfunding	Ourcrowd, indiegogo
	Money lending	Upstart, Prosper
	Crypto currencies	Bitcoin, namecoin

\*Adapted from Morgan (2014)

**Figure 1. Capturing the scope of service innovation**