

ANTECEDENTS OF SERVICE INNOVATION: ITS SUCCESS OR FAILURE

ANKITA SINGHAL*

Abstract

Growing complexity of demands of consumers forced the firms to innovate their products and services offered to the market. Large firms can undertake innovation more easily than smaller firms due to the availability of ample resources. However, not every firm gets success in implementing its new product and service. The failure could be the result of lack of qualified staff, lack of proper support of top management, inadequate resources, lack of cooperation and coordination among the members of the organization and many more reasons can be attributed to this. Hence, an attempt has been made in this paper to highlight the key antecedents of service innovation and to study how these antecedents can lead to either success or failure of service innovation by the firms. Directions for future research have also been discussed at the end of the paper.

Keywords: Service innovation; Antecedents of service innovation; NSD process.

1. Introduction

Service innovation not only helps in creating a competitive advantage for the firm but also improves position of the firm in the marketplace. To deal with the heterogeneity of services, management should design differentiated policies that can be successfully implemented across different service sectors. Service innovation is basically the task of leaders of the organization. But management can not undertake innovation without the support of front line workers or co-workers. It is the task of management to involve front line employees while making innovation

* Assistant Professor, University of Delhi

related decisions. They should allow workers to play innovative roles like that of a decision maker. Also, they should be careful while recruiting employees for innovation activities and make sure that the employees possess the requisite skills, knowledge and experience. Management should work in complete coordination with co-workers, staff and front line employees. They should formulate reward system to motivate and increase the efficiency of members of the organization. Also, management should ensure the availability of all the required resources for innovation like required information technology, financial resources, human resources, etc. Integration, coordination and cooperation is also important among all the members of the organization. Managers should show confidence in their employees, should be patient and should welcome suggestions from employees as they are the ones familiar with the actual needs of the customers as they directly interact with the clients. Top management support is an imperative for successful innovation but the same cannot be achieved without the cooperation of other members of the organization. Hence, this paper details the antecedents of service innovation and how they affect the success or failure of such innovation. As suggested by literature, antecedents are categorized into three- success factors directly related to new service development (NSD) process, success factors creating a supportive innovation climate and external conditions. How these antecedents can ensure success of service innovation is also discussed under each of the antecedent.

2. Objectives of study

To find out antecedents of service innovation, its success or failure

3. Research Method

This paper is descriptive in nature. The paper presents a review of literature on the antecedents of service innovation based on the past studies conducted in the related subject matter. All the relevant information, data, figures, etc. have been collected from secondary sources like journals, websites, online publications, etc.

4. Antecedents of service innovation

Success or failure of an innovation depends on a large number of factors. These factors can be categorised into two - 1) success factors and 2) external conditions [1]. Success factors are

controllable and can be managed by service firm itself whereas external conditions are unmanageable.

4.1 Success Factors:

Some of the success factors pertain directly to the activities in the new service development process which are related to people, structure, resources and networking, while other factors pertain to creation of innovation-supportive internal climate which includes culture, leadership, strategy and company characteristics. Hence, success factors can be divided into two parts-

4.1.1 Factors related to the NSD (New Service Development) process:

A total of 17 success factors have been identified by past researchers that directly intervene with the activities involved in NSD process. These 17 factors can be classified under four heads- People, Structure, Resources and Networking as follows:

Success factors directly related to the NSD process

| <i>People</i> | <i>Structure</i> | <i>Resources</i> | <i>Networking</i> |
|------------------------|----------------------------------|----------------------------|--|
| - Front-line employees | - Rules and procedures | - Financial resources | - Interaction with clients |
| - Innovative roles | - Task descriptions and rotation | - Information technology | - External focus |
| - Expertise | - Multifunctional teams | - Assignment of co-workers | - Co-operation with other parties |
| | - Internal co-operation | | - Pre-launch testing |
| | - Reward system | | - Market launch |
| | | | - Reputation (role of peers and experts) |

Source: EIM, 2002.

Turning the ideas and concepts into successful innovation requires the support, skills and efforts of the co-workers. But co-workers can sometime resist taking innovative efforts. Organisational structure defines tasks to be done, divides them and ensures that these tasks are properly coordinated. Availability of sufficient resources is essential for successfully implementing NSD process. Networking helps in identifying client wishes, market opportunities, etc. These factors are explained as follows:

People

This factor highlights the importance of front line employees for the success of service innovation as front line employees can better understand the needs of the consumers and help in implementing service innovation. This factor includes the following:

Front-line employees: Involvement of front-line employees is essential in NSD process. They are often considered merely as a delivery system but having highly skilled, educated and trained employees with required knowledge helps in successful launch of the new service [2]. They help in generating new service ideas through their direct interaction with customers, collecting knowledge about clients' needs and opportunities, defining appropriate level of customisation of service and its user-friendliness and persuading clients to adopt the new service. Increased participation of front line employees in NSD can ensure success of new and innovative services. Hence, it becomes necessary for the firms to carefully select, develop and manage employees working directly with the end-consumers. However, employees are often reluctant to get involved in NSD process due to the fear of increase in workload [3].

Innovative roles: Co-workers plays different roles in an organization. The most important role is the role of a 'product champion'. A person who "pushes a new service beyond road blocks within the organisation" is a product champion [4]. However, in practice one co-worker can perform several other roles as well in combination to being the product champion. They can be decision makers to decide about the course of action, project leaders to coordinate innovative efforts, sponsors to provide requisite resources or ambassadors to promote the new service. A service firm may improve results of new service development efforts by ensuring the presence of above roles in workers [1].

Expertise: Lack of the availability of highly educated and experienced staff acts as a major barrier for innovativeness [5]. Staff having the knowledge of basic technologies of the firm, customer processes and delivery processes can help the firm in making sound judgements about innovation related aspects. Providing on-the-job training and education to the employees can improve their expertise and capacity to solve problems and can make them more creative.

Structure

Rules and procedures: Rules and procedures formalise NSD process and directs the firm as to “how to behave”. The effect of this can be two folded. Formalisation, on one side, by providing guidelines speeds up the process of NSD thereby leading to efficiency and effectiveness [6]. On the other side, too strict procedures and rules can have the effect in total opposite.

Task descriptions and rotation: Describing the tasks to be done by the co-workers as part of the NSD project can improve chances of innovation being successful [7]. The challenges faced by the employees posed by the NSD project can motivate them to accept the forthcoming changes. Task rotation involves “exchanging tasks and jobs among employees” [1]. It enhances the potential for creativeness among the co-workers as they get an idea of each other’s work and they are more likely to come up with innovative ideas that can improve services, delivery processes, etc.

Multifunctional teams: Multifunctional teams have direct contribution in the development of new services [6]. Multifunctional team is an integrated group of persons having different educational qualifications, work experiences and competencies who collectively with the help of their expertise solves the problems of the organization and helps in successful development of the new service.

Internal co-operation: Co-workers, senior management, front line employees and staff of the organization should work in cooperation with one another to make NSD a success. In order to make innovation successful, who initiated the innovation is less important than the cooperation and working together of all the members [1].

Reward system: Reward system improves the efficiency of existing work processes as it motivates one to perform an existing work in a better way. Reward system should propagate internal co-operation among the members involved and attempt should be made to link reward with innovative efforts like rewards linked to the number of generated ideas.

Resources

Financial resources: Financial resources (time and money) are needed at every stage of new service development. Lack of financial resources in the search stage can kill creativity of co-workers as lack of financial resources lessens their motivation to generate new ideas. Financial resources are also needed to develop the concepts of service, for selling these to customers, for collecting feedback and for making required adjustments.

Information technology: Information technology (IT) is a very important tool for innovation in services. Be it idea generation, use of patented ideas, past discoveries or data related to customers and competitors, IT plays a significant role [1]. Also, IT accelerates the process of service innovation and helps in streamlining and re-engineering vital business processes [8]. However, effectively using and implementing new information technologies requires proper employee training, encouragement by management and positive employee attitudes [9].

Assignment of co-workers: Explicit assignment of co-workers is another antecedent of service innovation. New service development should be made the primary task of the workers involved and not as only a part time involvement. Proper match between innovation and daily work should be made in order to avoid delays in NSD. One method of matching innovation and daily work could be setting lower targets for the workers involved in development of innovative service [10].

Networking

Interaction with clients: Involving customers in NSD is extremely important [11] because it helps in providing important information regarding customer feedback, needs of the market [12], etc. This information can help the firms to improve themselves and can make execution and implementation of new service easier.

External focus: External focus helps in stimulating idea generation and problem solving capabilities among the co-workers. Interaction with suppliers, resource institutions, competitors, consultants help co-workers in identifying market opportunities and existing or potential threats in their working environments so that they can use this information to create new services or

improve the existing ones. Among the above mentioned players, competitors' acts as the main source of idea generation for new services [13] because of the ease of imitation.

Co-operation with other parties: For successful development of new services, cooperation is important not only among the members within the organization but also with external parties like suppliers, competitors, customers, research institutions, etc. Involvement of members from other organizations increases efficiency in the process of NSD and lowers the risk of failure as the external participants bring in their own knowledge and skills [1].

Pre-launch testing: Early adopters can provide feedback to the firm by evaluating new services and firms can use such feedback to modify or improve their delivery systems, service concept, etc. [2][14]. However, testing is generally not undertaken before launch because of the perception of relatively lower risk of failure in copying the new service concept from the competitors.

Market launch: The efficiency with which the new service is launched in the market determines its failure or success. Training of co-workers, effective marketing strategies, evaluation of the launch results, maintaining synergy with existing marketing efforts, new service fit with firm's marketing competencies in marketing research, sales force, distribution, promotion and customer service [15] etc. can help in successful launch of the new service.

Reputation: Services being intangible and heterogeneous, customers tend to rely on the judgement of their friends, relatives, colleagues or experts before purchasing the new services. The advice of these peers and experts are partly determined by the firm's reputation in the market and hence firm's reputation is an important antecedent of service innovation [1].

4.1.2 Factors creating a supportive innovation climate: The above discussed 17 factors directly affect the process of NSD. However, there are some factors that do not directly intervene in NSD process but indirectly affects it by creating an internal climate that is supportive to innovation [16]. Literature reveals 10 such factors which are shown in the table below:

Success factors creating a supportive innovation climate

| <i>Culture and leadership</i> | <i>Strategy</i> | <i>Company characteristics</i> |
|-------------------------------|-----------------------------|--------------------------------|
| – Management support | – Business vision | – Technological synergy |
| – Open culture | – Innovation objectives | – Firm size |
| – Internal communication | – Fit with overall strategy | – Complexity of service design |
| – Autonomy of co-workers | | |

Source: EIM, 2002.

Culture and leadership

Organizational culture reveals the informal rules that guide people to behave i.e. people know what is expected of them and how they should react in a particular situation. Organizational culture is incomplete without effective leadership as both motivate employees to work for innovation. Culture and leadership includes the following:

Management support: Management support is an imperative for successful innovation. However, it is necessary that managers' have confidence in their employees. They need to be patient and should always welcome suggestions from employees and should make the required resources available on time in order to generate a favourable internal climate supporting innovation.

Open culture: Senior managers', by sharing their ideas with employees, stimulating communication within organization and leading and motivating them to tap new areas, plays an important role in creating an open culture which in turn creates a supportive climate within the firm. Development of innovative services encourages openness and creativity [2].

Internal communication: Sharing information within the organization is essential for a favourable and supportive internal climate. Sharing information with one another affects workforce idea generation abilities [17] and it improves the problem solving capabilities of the firm thereby reducing or preventing mistakes in future projects [1]. Past researchers have shown that problems in communication can slow down and even decrease the success of innovation activities [18].

Autonomy of co-workers: Centralisation of decision making power opposes innovation by creating a hostile climate that reduces motivation for change and creativity whereas decentralisation enhances generation of new ideas as employees are allowed to work freely and independently choosing their own approaches to do their work.

Strategy

Strategy provides future directions to the firm with respect to the distribution of resources and viewing innovation process as an ad-hoc process. Strategy includes the following:

Business vision: Business vision is usually detailed by entrepreneurs or by senior management and it provides directions for the future activities of the firm. It is important for the firm to properly communicate the vision of the business to its employees and to incorporate innovation within business vision to expand firms' innovative abilities [19].

Innovation objectives: Objectives of innovation should be clearly stated and communicated to every co-worker as it reduces wastage of resources during screening and evaluation of ideas besides keeping everyone involved on track.

Fit with overall strategy: Efforts involved in the development of new service (resources, expertise, etc.) should fit the firms' overall strategy i.e. innovation objectives should be in line with long term business objectives and they should be able to achieve competitive advantage for the firm. Misfit of new service with the current strategy has been identified as the cause of many failed projects [2].

Company characteristics

Company's basic characteristics can also have an impact on the success of innovation by the firms and are explained as follows:

Technological synergy: A higher degree of technological synergy lowers the cost of development, reduces chances of error and increases speed of development. However, this relationship is not that clearly stated when one refers to service innovation.

Firm size: The influence firms' size has on success of innovation is ambiguous. Large firms tend to be more innovative than smaller firms due to large availability of resources, lesser risk of failure and more areas in which to innovate [20]. Therefore, favourable climate supportive to innovation is more likely to be found in large firms. However, smaller firms are more flexible, less bureaucratic than large firms which make smaller firms more innovative.

Complexity of service design: Complexity of service designs requires intense knowledge and experience with respect to technology, customers, delivery processes, markets, etc. Complex service designs are difficult to be copied by competitors and hence can enable a firm to create temporary monopoly and reap the benefits of first-mover advantage.

4.2 External Conditions:

Service managers either have no control or only have an indirect influence on the external conditions that affects the result of innovation by service firms [21]. These external conditions may relate to market conditions, knowledge infrastructure and government policy explained as follows:

External conditions affecting innovation success in service firms

| <i>Market conditions</i> | <i>Knowledge infrastructure</i> | <i>Government policy</i> |
|--------------------------|------------------------------------|----------------------------|
| - Non-price competition | - Public knowledge infrastructure | - Appropriability |
| - Technological change | - Private knowledge infrastructure | - Taxes and subsidies |
| - Demand-pull | | - Other policy instruments |

Source: EIM, 2002.

A firm cannot influence market conditions at all but it may attempt to influence knowledge infrastructure and government policies by enlisting service organization and lobbyists. Due to the presence of these external conditions, no certainty of success of innovation can be established.

Market conditions

Non-price competition: Economic conditions act as an obstacle to innovation success [5]. Non-price competition increases the number of innovation by the firms [22] as in non-price

competition firms prefer to differentiate their services from competitors and they compete with them on service characteristics and advertising efforts. Profit margins are high and risk of failure is low in non-price competition.

Technological change: Technological change affects production, distribution and demand for services [23]. It also affects “average length of the life cycles of services”. In some markets, it is lasting (haircuts) while in other markets, it is very short where new services keep on replacing old ones (computer software).

Demand pull: Demand pull indicates growth in demand which suggests that particular firm is innovative [24]. Low demand pull shows the reluctance of clients to the acceptance of new service [25] and not many firms would like to invest in NSD during low demand.

Knowledge infrastructure

Public knowledge infrastructure: Public knowledge infrastructure (Universities, research institutions, etc.) provides access to relevant knowledge and information to the firms involved in innovation. It also helps them to solve problems occurring in NSD process and grants subsidies for development efforts.

Private knowledge infrastructure: Private knowledge infrastructure consists of knowledge-intensive business services (KIBS) which are private companies that rely on the knowledge of professionals and supply intermediate products and services which are knowledge based [26]. KIBS provides not only the explicit knowledge to firms but also transfers tacit knowledge i.e. “know-how” [27]. Tacit knowledge is highly personal in nature and cannot be transferred to client firms. It requires practice and experience to acquire it.

Government policy

Appropriability: As mentioned earlier also, most of the service innovations are copied from competitors. Baumol (2002) [28] estimated that only less than 20% of economic benefits of innovation actually go to the person responsible for such innovation. Thus, ensuring appropriability is important for stimulating innovation. Appropriability can be ensured with the

help of registering trade-marks, using copyright and data protection laws [25], patented business models, etc.

Taxes and subsidies: Government can grant subsidies or tax reductions to stimulate innovation [29] but such reliefs are hardly offered for innovation in services.

Other policy instruments: Communication and support programmes initiated by government can promote service innovation. Public knowledge infrastructure can be used to build and transfer this knowledge. Government purchases as well as provides innovative services.

5. Directions for future research

Empirical researches can be conducted to study the effect of each of the antecedent on the success and failure of service innovation by the firms with respect to different industries.

6. Conclusion

To conclude, antecedents of service innovation include success factors directly related to new service development process which includes people, structure, resources and networking. It also includes factors creating a supportive innovation climate like management support, open culture, fit with overall strategy, technological synergy, autonomy of co-workers etc. Lastly, it includes external conditions which may relate to market conditions, knowledge infrastructure and government policy. All these antecedents are crucial for the success or failure of service innovation.

References

- [1] De Jong, J., Bruins, A., Dolfsma, W., & Meijaard, J. (2003). Innovation in service firms explored: what, how and why? EIM Business & Policy Research.
- [2] De Brentani, U. (2001). innovative versus incremental new business services: different keys for achieving success. *journal of product innovation management*.
- [3] Easingwood, C. (1986). New product development for service companies. *Journal of product innovation management*, 264-275.

- [4] Shane, S. (1994). Are champions different from non-champions? *Journal of business venturing*.
- [5] Drew, S. (1995). Strategic benchmarking: innovation practices in financial institutions. *International journal of bank marketing*, 4-16.
- [6] Frohle, C., Roth, A., Chase, R., & Voss, C. (2000). Antecedents of new service development effectiveness: an exploratory examination of strategic operations choices. *Journal of service research*, 3-17.
- [7] Amabile, T. (1998). How to kill creativity. *Harvard Business Review*, 77-87.
- [8] Dover, P. (1987). Innovation in banking: the in-home computerised banking example. *International journal of bank marketing*, 39-54.
- [9] Agarwal, R., & Prasad, J. (1997). The role of innovation characteristics and perceived voluntariness in the acceptance of information technologies. *Decision Sciences*, 557-582.
- [10] Vermeulen, P. (2001). Organizing product innovation in financial services. Nijmegen University Press.
- [11] Martin, C., & Horne, D. (1995). Level of success inputs for service innovations in the same firm. *International journal of service industry management*, 40-56.
- [12] Berry, L., & Hensal, J. (1973). Why do some new bank products fail? *Bankers monthly*, 26-30.
- [13] Teixeira, D., & Ziskin, J. (1993). Achieving quality with customer in mind. *Bankers Magazine*, 29-35.
- [14] Easingwood, C., & Percival, J. (1990). Evaluation of new financial services. *International journal of bank marketing*, 3-8.
- [15] Edgett, S. (1994). The traits of successful new service development. *Journal of services marketing*, 40-49.
- [16] De Jong, J., & Brouwer, E. (1999). Determinants of the innovative ability of SMEs. EIM: Zoetermeer.
- [17] Oden, H. (1997). *Managing corporate culture, innovation and entrepreneurship*. Westport.
- [18] Vermeulen, P., & Dankbaar, B. (2002). The organisation of product innovation in the financial sector. *Service industries journal*, 77-98.

- [19] Bart, C. (1996). The impact of mission on firm innovativeness. *International journal of technology management*.
- [20] Hipp, C., Tether, B., & Miles, I. (2000). The incidence and effects of innovation in services; Evidence from Germany. *international journal of innovation management*, 417-454.
- [21] Edgett, S., & Thwaites, D. (1990). The influences of environmental change on the marketing practices of building societies. *European journal of building societies*, 35-47.
- [22] Arvantitis, S., & Hollenstein, H. (1994). *Industrial innovation in Switzerland: a model-based analysis with survey data*. Macmillan Press Ltd, 13-63.
- [23] Kox, H. (2002). *Growth challenges for the Dutch business service industry: international comparison and policy issues*. CPB: Den Haag.
- [24] Mowery, D., & Rosenberg, N. (1979). The influence of market demand upon innovation: a critical review of some recent empirical examples. *Research policy*, 102-153.
- [25] Preisl, B. (1998). *Barriers to innovation in services*. STEP group Oslo.
- [26] Den Hertog, P. (2000). *Knowledge-Intensive Business Services as Co-Producers of Innovation*. *International Journal of Innovation Management*, 491-528.
- [27] Miles, I., Kastrinos, N., Den Hertog, P., Flanagan, K., & Huntink, W. (1995). *knowledge intensive business services: their role as users, carriers and sources of innovation*. Sprint EIMS programme.
- [28] Baumol, W. (2002). *The free market innovation machine. analysing the growth miracle of capitalism*. Princeton University Press.
- [29] Geroski, P., Van Reenen, J., & Walters, C. (1998). *Innovations, patents and cash flow. innovation and economic change;exploring CIS micro data*, Delft.