Chapter 1

Introduction

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Introduction

In 1977, in her landmark paper, “Breaking Free from Product Marketing” in *Journal of Marketing*, Lynn Shostack suggested that service marketing has to take into account the specific characteristics of services (Shostack, 1977). The emergent recognition of services formed a new research area; that is, service marketing. Even in the late 90s, services (as compared to products) were often described by their characteristics, by being *inseparable, heterogeneous, intangible, and perishable*, popularly abbreviated “IHIP”. In the beginning of the new millennium, researchers criticized this simplified and flawed classification of services (e.g., Lovelock and Gummesson, 2004). As a result, services and service innovation have finally shaken off their Cinderella status, in the sense of being neglected and marginal, to achieve wider recognition as a field worthy of study (Miles, 2000).

A milestone for taking a new perspective on services was the introduction of the “service-dominant logic” (SDL) coined by Vargo and Lusch (2004). SDL, in turn, built on research ideas emanating from the

Nordic School of Service Marketing (Grönroos, 2016; Gummesson, 1995; Edvardsson, 1996). This perspective on service virtually erased the borderline between physical goods and services, instead claiming the importance of the value gained from using integrated products and services. So far so good. However, ideas on how to innovate new services, which recently has arisen as a relevant and important research area, still rely on traditional service marketing that to a large extent is inherited from studies on product development.

Many early attempts to describe the development of new services were slight adaptations of established new product development (NPD) models. Commonly, these start with an idea and end with a commercialized product. The process is described as a structured rational sequential process with well-defined stages separated by gates (Wheelwright and Clark, 1992). Innovation and development is thus portrayed as a pre-planned and controlled, rational process. Researchers have suggested adaptations of NPD models to services, often called new service development (NSD) models. Examples of this are Scheuing and Johnson (1989), Bowers (1989), Johnson *et al.* (1999), and Alam and Perry (2002). All these suggested models are sequential, encompassing from eight up to fifteen stages. Service innovation is thus regarded as a special case of product development where adjustments are made to capture the particularities of services.

An alternative perspective has developed that comes from empirical studies of service development and innovation (e.g., Fuglsang and Sørensen, 2011; Høyrup, 2012). This perspective instead recognizes that innovation may also be the outcome of *unintended* and *informal* processes. It also pinpoints that service innovations are mostly incremental, and can emanate from different types of innovation activities (e.g., Toivonen and Tuominen, 2009; Fuglsang and Sørensen, 2011; Sundbo, 1997). Gallouj and Weinstein (1997) define “*ad hoc* innovation” where the innovation represents “a solution to a particular problem posed by a given client.” A similar perspective on service innovation is referred to as bricolage or tinkering, a type of “do-it-yourself” problem-solving activity that creates structure from resources at hand (Fuglsang and Sørensen, 2011). These innovations

are developed without an intention to innovate, but rather by employees finding a solution to an emerging problem, often in the context of their ordinary work.

Research on service innovation is at a relatively early stage of its development; there are recurrent calls for research to improve our understanding of this topic and its underlying mechanisms (e.g., Ordanini and Parasuraman, 2011; Ettlie and Rosenthal, 2011; Lages and Piercy, 2012; Rubalcaba *et al.*, 2012; Ostrom *et al.*, 2010; Snyder *et al.*, 2016). Service innovation is investigated and understood from several perspectives, often referred to as assimilation, demarcation, and synthesis (Coombs and Miles, 2000). All these perspectives are used in service research, providing a rich view of service innovation in the private and public sector (Witell *et al.*, 2016).

Service Research Center in Karlstad, Sweden

The Service Research Center, CTF (in Swedish, Centrum för tjänsteforskning) is one of the world's leading research centers focusing on value creation through service. CTF is a well established international research community that co-creates research together with business and public sector organizations. In 2012, external reviewers on mission for The Knowledge Foundation in Sweden ranked CTF within the top five service research centers in the world. CTF has a widespread reputation for quality research that is both academically rigorous and relevant, addressing issues related to societal problem solving.

Established by Bo Edvardsson in 1986, CTF today has around 70 researchers and doctoral students who are active researchers in business administration, informatics, working life science, psychology, engineering sciences, and sociology of religion. Since CTF was established, PhD candidates have published 46 dissertations and 22 licentiate theses. More than 500 articles have been published in scholarly journals. CTF is involved in research, undergraduate and graduate education, and close cooperation with leading business and public organizations in various areas of service research. In addition, CTF also arranges highly appreciated external seminars and conferences, both for practitioners and academics.

To live up to its excellent reputation as a leading research center, CTF builds on three pillars:

- CTF is a nationally and internationally recognized, excellent research environment at Karlstad University, characterized by high scientific quality.
- CTF's research and education are conducted in close interaction with the surrounding society (that is, public and business organizations).
- CTF is a multidisciplinary research organization.

The overall ambition of CTF is to develop research regarding *value creation through service*. In doing so, CTF will strengthen its position as a national and international research environment characterized by its high scientific quality. With value creation through service as its vision, its mission is to collaborate with external organizations by doing research on complex and challenging issues relating, to some extent, to value-creating processes.

Over the years, CTF's efforts to develop groundbreaking theoretical and actionable knowledge have developed. New service development and new service innovation represents one of the strongest research areas at CTF. During its collaboration and interaction with leading organizations in Sweden, new and challenging research questions have emerged. Studied over many years, research areas include servitization research (presented in Chapters 7–9, 13 and 14 of this book), how new business models emerge (Chapter 15), and how organizations stimulate ideas for innovation (Chapters 2–5) or manage psychological aspects in their surroundings (Chapters 9–10). Research on business models is now part of several ongoing projects at CTF. In this way, new research streams are expected to grow, and also, in combination with that, new research profiles and subjects are expected to be integrated into CTF's activities.

External cooperation constitutes one of the hallmarks of CTF. This is visible through its vision and mission, to do research in collaboration with organizations in order to strengthen their competitiveness in terms of value creation for their users. CTF's extensive interaction and

involvement has contributed to developing partner organizations' operations, as well as created favorable conditions for research funding, access to data collection, and access to an alternative labor market for newly graduated PhDs. Collaboration also has contributed to quality improvements within research, such as how CTF seeks, defines, and tackles research problems, and also how CTF communicates research results. External cooperation with business organizations has been present since CTF was founded, and CTF continues to have close research collaborations with business firms.

Service Innovation for Sustainable Business

The research profile *Service Innovation for Sustainable Business* (project financed by KK-stiftelsen) was launched in September 2011 (it continued 2011–2019) to identify the DNA of service innovation. The research profile provides new knowledge on service innovation that can contribute to building sustainable new work practices and businesses for CTF's partners. In addition, the research profile aims to strengthen the position of CTF as a leading research center in service management. Building on its brand and recognition, CTF has taken a leading position in research on service innovation; CTF has participated in EU grant applications and organized research forums, workshops, and research network meetings.

The overall purpose of the research profile is to **describe and understand the DNA of service innovation**. The metaphor of DNA refers to the mechanisms in the development (process) and functioning (output) of service innovation. The research profile will unfold the generic and specific mechanisms of service innovation. DNA is often compared to a set of blueprints, like a recipe or a code, since it contains the instructions needed to put together or take apart living things; here, the living thing is service innovation.

Based on the DNA of service innovation, the research profile will develop theories, models, and methods for the management, organization, and development of service innovations. The research profile's

more specific purposes are to develop theoretical and empirically grounded knowledge on the following:

- What is and how can we describe a service innovation (output and process) and the new service development process?
- What is the role of value capture in service innovation; that is, different ways of capturing value such as new business models?
- What is the role of the service ecosystem and what are resource prerequisites for the stimulation, realization, and further development of service innovation?
- What is the role of technology, people, and data in service innovation?
- What is the role of customer and employee integration in new service development, and does integration have an effect on new service development performance?

The research of Service Innovation for Sustainable Business can best be described through a framework of research themes and research contexts. The three research themes are stimulation, realization, and value capture, and they constitute the structure of this book. The two research contexts that are studied in detail through the research profile are retailing and manufacturing. In particular, we work together with our partners Ericsson, Volvo, Valmet, IKEA, ICA, and Löfbergs to increase our knowledge on service innovation (previously Tetra Pak and Stamford also participated). In the book, we present some of the ideas and knowledge created within the research profile and CTF in general.

Some recent reviews of research on service innovation and new service development show that CTF is recognized as a leader in service innovation. In the paper, “Uncovering the structures and maturity of the new service development research field through a bibliometric study (1984–2014),” Mendes *et al.* (2017) identify the largest network of NSD researchers as revolving around CTF and Professor Bo Edvardsson. During the time period of the study, 59 authors coauthored 46 research papers on NSD, focusing on NSD characteristics, customer involvement, service engineering, and product-service systems and on NSD in manufacturing companies. In a similar paper titled “New service development: How the field developed, its current status and recommendations for moving the field

forward,” Biemans *et al.* (2016) point out the CTF-led research cohort as the largest and most active researchers on new service development. In particular, they conclude that the Scandinavian researchers focus on the relationship with customers, either as providers of market information or as active collaborators in the development of new services.

Purpose of the Book

The main purpose of this book is to discuss and explain service innovation based on contemporary research. The book explains service innovation based on three core activities: *stimulation*, *realization*, and *value capture*. All three activities need to be considered, and as a result of these considerations, detailed activities have to be carefully implemented to accomplish service innovation that has an impact in organizations.

- *Stimulation.* Organizations focus on the front end of service innovation; that is, the initial activities that spark ideas for new service. The front end deals with structures, cultures, and processes to stimulate and nurture innovation. Idea management is a central part of it, that illuminates the specifics of handling service ideas.
- *Realization.* Companies investigate how to realize service innovations. Compared to traditional physical products, services that lead to value creation induce specific problems when it comes to realization; for instance, how to visualize your service in order to define and communicate the new value. But also, virtually all service innovation implies some kind of organizational change: new organizational processes and structures have to be implemented, employees have to be trained, and customers have to be informed of how to co-create the service. To be successful in developing new services, organizations must adopt a new mindset and new tools.
- *Value capture.* Companies transiting to more service-oriented models need to reconsider old business models in order to capitalize on their new services. Services are often taken for granted and included for free in the price of the product. This chapter addresses the problem of going “from free to fee”.

Who Should Read This Book?

The book should be read by managers and academics interested in gaining knowledge about the following:

- A deeper description of special aspects of service innovation. This description should allow both managers and academics to carry out more profound analyses of service innovation processes.
- Managerial advice for service innovation, with case studies from different types of organizations.
- A framework of service innovation consisting of *stimulation*, *realization*, and *value capture*.

The target group is people who want to understand service innovation based on knowledge anchored in contemporary research. The book is intended for both academic courses as well as management education; the target group includes researchers, undergraduate and graduate students including MBA students, and managers in both business and public organizations.

Outline of the Book

The first part of the book, which focuses on *stimulation*, includes chapters related to how service innovation begins in organizations.

In Chapter 2, Johan Netz and Peter R. Magnusson discuss why companies sooner or later discover that there are huge differences between developing services and developing products. Service development requires tools and methods different from those used primarily for product development. Even so, the latter types are still frequently used when developing new services. In the chapter, different tools and methods focusing on service development are suggested depending on where in the innovation processes the development project is. Reading this chapter will provide practical advice and knowledge relevant to the future development of new services.

In Chapter 3, Alexandre Sukhov, Johan Netz, and Peter R. Magnusson address the early stages of innovation by defining and introducing a model

of an idea for innovation. This model helps in managing idea generation (by analyzing the content of an idea and whether it needs further elaboration), refinement (by directing the attention on the missing elements and helping to identify the competences needed for its development), and evaluation (by reducing cognitive bias through an improvement of the information content and the narrative of the idea description). The chapter provides real examples of ideas for innovation from the industry that show how the model can be used.

In Chapter 4, Peter Samuelsson, Alexandre Sukhov, Johan Kaluza, and Chaoren Lu take a starting point in what stimulates innovation in the public sector. Since market logic does not apply to service innovation practices in the public sector, this chapter describes and illustrates what does and how. Following this aim, the chapter is conceptual in nature, building upon the service innovation and public management literature, informed by practice theory. The chapter presents a model for service innovation in the public sector, where the guiding logic of public management is broken into three parts: traditional administration, new public management, and new public governance. Different guiding logics give social structures that use different innovation practices. The different innovation practices create different outcomes in terms of value constellations, making it important for public organizations to structure and manage their service innovation operations accordingly.

In Chapter 5, Bård Tronvoll and Bo Edvardsson, from CTF, together with Maria Möllerskov-Jonzon from IKEA investigate how IKEA gets feedback and learns from customers, practices that are critical for service innovation. Feedback from customers seldom contributes to innovation processes; the problem is in using the feedback gathered. This chapter therefore explores customer feedback that stimulates and contributes to the service innovation process. This chapter focuses on IKEA's innovation journey using their "Democratic Design" concept. This journey started with customer feedback and has resulted in an easy-assembly furniture system called the click system.

The second part of the book, which focuses on *realization*, includes chapters related to how service innovation is actually happening in organizations.

In Chapter 6, Rolf Findsrud and Sebastian Dehling positions resource integration processes as a microfoundation for service innovation to occur. The focus is on actors' resource integration processes using operant resources, individually or in collaboration, coordinated by institutional arrangements, to co-create value. Actors' resource integration creates opportunities to discover, reshape or create new combinations of resources. Accordingly, resource integration represents the key process from which potentially better ways of realizing value can be found. As a result, service innovation occurs through new or changed practices that are adopted by a wider collective changing in practice at a higher level of aggregation.

In Chapter 7, Besma Glaa, Per Kristensson, and Lars Witell focus on how service teams can integrate knowledge about value creation with in-depth skills in innovating new, technologically advanced solutions. The chapter synthesizes various research articles that have addressed the problem of finding teams that have knowledge about both value-creation and technical solutions, and emphasizes that successful service innovation considers both of these areas of knowledge.

In Chapter 8, Per Myhrén, Lars Witell, and Maria Åkesson discuss how assigning actors different roles is a prerequisite for open service innovation. More specifically, the chapter focuses on the actors' roles and knowledge transfer in the innovation process. The chapter builds on data from an innovator firm and its network partner and describes how the firm's existence has relied solely on the outcomes from an open service innovation network since the early 1970s. We show how actors take on multiple innovator roles in the innovation process of open service innovation, and we introduce a new innovator role, the "Constitutional Monarch".

In Chapter 9, Per Kristensson and Peter R. Magnusson show that while servitization has been an interesting outcome for industrial organizations, many companies in this sector still struggle to make servitization happen. Instead of depicting servitization phases and identifying challenges, Kristensson and Magnusson showcase how manufacturing firms can apply psychological findings to jump-start servitization and reap the benefits that so many researchers talk about.

In Chapter 10, Erik Wästlund, Poja Shams, and Tobias Otterbring introduce "the 3S model: Store, Shelf, Stock" for studying the servicescape of retailing. They build this model on a review of several of their

previously published eye-tracking studies. Thus, this chapter gives a short-cut to many scientific findings. Furthermore, they delineate the importance of studying the process underlying customers' service experiences in the retail servicescape and the necessity to include new technological tools in order to understand customer experiences.

In Chapter 11, Samuel Petros and Bo Enquist addressed the idea of a values driven service innovation through sustainability business practices and service research for transformation, value co-creation, and sustainability/CSR-practice to provide "sustainable service business" a broader meaning. We have given a priority to innovation and transformation that includes the global society and the biosphere. This study is based on the service innovation thinking in the value chain of a values-driven family-owned enterprise, which is engaged on re-configuring their engagement at the BoP by innovating "next practice" thinking. This chapter contributes to developing "next practice" as a business model and proposing a managerial and social embeddedness in sustainability service innovation.

In Chapter 12, Linda Bergkvist and Jenny Karlsson investigate the gaps and challenges in implementing innovative ideas. The chapter draws on a qualitative study of service innovation processes in a healthcare context involving users, frontline employees (FLEs), and managers. Conditions for realizing service innovation are identified and related to environment, organization, management, and users/FLEs. Previous implementation frameworks, with a narrow focus on adoption of innovations, have been extended by introducing a practice-based perspective and by illuminating conditions for the realization of service innovation ideas.

The third part of the book, which focuses on *value capture*, includes chapters related to how service innovation is creating value for the organization undertaking the innovation effort.

In Chapter 13, Peter R. Magnusson, Christiane Hipp, and Bo Edvardsson gives an in-depth account for the challenges that manufacturing companies often encounter when integrating services in their businesses. The main challenges being stuck in a mindset, knowledge spillover, and pricing/charging of services. Furthermore, they derive a model where servitization is divided into five different phases which put different demands on the company to succeed. Finally, managerial implications for handling the transition process are given.

In Chapter 14, Lars Witell, Peter R. Magnusson, Bo Edvardsson, and Helen Beckman show why it is important for manufacturing firms to innovate through services in order to develop ongoing business relationships. The products become platforms for services that create value-in-use for the customer. This study identifies two service-based states of business relationships — revitalization and regression — that help explain the dynamics of value creation through service. The chapter contributes by taking an in-depth look at what happens when a business relationship founded on transactions of goods changes into one based on service.

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