



## Directions to Explore the Principles of Service Innovation: With Various Companies' Case Study

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### Abstract

Service innovation is a new or significantly improved concept that is taken into practice based on new customer interaction channel, a distribution system or a technological concept or a combination of them. Here authors provide nine principles of service innovation and various case studies. The principles are designed by keeping the view of their applicability to all variety of businesses seeking to be successful in the turbulent times facing different industries. Collectively, these principles are the key major factors about making a break with the way innovation has been done in the past and developing compelling products, services and value propositions for existing and new customers supported by a range of business models.

**Keywords:** Nine Principles; Service Innovation; Quality Management Excellence.

### 1. Introduction

Although the concept and term of Service Innovation was first introduced by Miles (1993) and has been well-built in the past two decades. It includes but not limited to:

- i) Service innovation: This majorly includes innovation in service products to get new or better-quality products. Sometimes, this is compared to the "technological innovation", which is basically technological elements based innovative service products. This sense of innovation is attentively related to the design of service and "new service development".
- ii) Service processes innovation: This includes new or sometimes improved modes of designing and producing various services. It comprises innovative ways of service delivery systems, however frequently this is regarded as a service product innovation. It is to clarify that the innovation of this type could be expertise, technological, based, or may be a matter of work organization.
- iii) Service firm innovation: These firms include innovations in various organizations and industries also employed to the service product, processes, and to the management within service organizations.

**1.1 Recent Research on Service Innovation** Recently most of the reported literature for successful innovations comes from the are of "New Service Development". The researchers have also extensively discussed the qualities of service products and experiences which are more effective. Here, the prime key aspects of several service activities is basically the high participation of the end users in the production of the final service. Without the interactivity of service production, its is almost impossible to create the service. For this reason, innovation researchers are stressed about the difficult to create service innovation in traditional categories such as product or process innovation.

### 2. Discussion: Nine Principles of Service Innovation

The course of creating new ideas or processes, or taking prevailing ideas and processes in innovative direction is termed as innovation. An innovative process or idea does not have to necessarily contain a bolt from the blue. But on the other

hand, it almost should involve at least a twist on current processes. To properly understand the innovation with the help of reported literature, nine basic principles of service innovation were developed, which are described following.

- i) Innovative management leads to service innovation as well as to the product and technology innovation.
- ii) Service innovation originates from customer needs or requirements.
- iii) Service innovation will be developed more frequently in those enterprises which quality management system are carried out more strictly than those ones which have less emphasized quality management system.
- iv) Positive company culture and harmonious working environment inside the organization are ideally for promoting service innovation.
- v) More and more service innovation will be linked with ICT technology, which is one of the trends of modern society or in information era.
- vi) Radical service innovation or significant service innovation are mostly the results of top management's support, in which the top leaders (CEO or President) very often put forth the initiatives and directly push forward.
- vii) Service innovation is also obeyed to product (service) life circle, especially the service linked significantly with some goods or technology, accompanied with those goods and technology going to the end of life, the service will be also going to the end of life.
- viii) The capability of disposing resources is related with levels of service innovation, the bigger, the higher mode of service innovation, which is linked with the explanation of The Mode of Five-level Classification of Service Innovation in Enterprises.
- ix) Competition is the out force to push forward the service innovation, more competitive environment benefits the development of service innovation.

## **2.1 Principle 1: Auxiliary role of Innovative Management in Service Innovation**

**“Innovative management leads to service innovation as well as to the product and technology innovation.”**

Even the most competent firm which deploys resources wisely still needs to manage innovation effectively. This is the main focus, thus, the role of innovative management is "to provide a work environment of openness built on trust where every member of the team feels free to express their views/opinions without fear of ridicule or reprisal." Defining a decision-making approach to starts innovation with better understanding of the existing problem which you need to resolve. Unfortunately, there are some problems, which are not so easy to take into account, like how to viably create the alternative energy sources to the fossil fuels. Thus well defined problem, is an important part of developing an innovative approach to solve the problem (Huizingh, 2011). Thus the tasks of innovative administration can be summarized as (Mortara, Kerr, Phaal, & Probert, 2009):

- To develop a very clear vision for the open innovation
- To defining the role of company to identify and make value during the innovation
- To choose a structural model which supports open innovation
- To allocate the financial resources
- To first identify and then to tackle the obstacles
- Finally to monitor and to evaluate the results.

### **2.1.1 Evidence from the Case Study: Innovative Management to Promote Microsoft's Products**

Few years before, a new search engine “Bing” has been released by “Microsoft”. The aim was to develop an improved version of previous Microsoft’s search engines: Live Search and MSN Search. But it has been still struggling during the past years to increase market share, and on the other hand, Google has remained the leader far ahead of its competitors. In 2007, Microsoft began to develop Bing. Microsoft realized that their advantage not only lies on those inherited desktop market share, but they should also never stop the innovating spirit of Silicon Valley. Compared to stock market share, it should be better to manage their own creativity. Microsoft management made bold innovative steps, starting with personnel, the president of Microsoft Research Asia, Hary Shum moved to the US to appreciate the importance of the Internet. Microsoft's Internet division again started to work after reorganization. After the effort of whole year, Microsoft launched a brand new online division of Bing. Meanwhile, senior product manager for Microsoft Research Asia Wu Xin led the establishment of a dedicated team, and began a survey of user needs. The purchase research data, analysis of the amount of user requests, interviews, and questionnaires, all helped the team to understand the internet market for Microsoft. Later, sue to direct involvement of innovative magnet, the variety of never-before-seen technologies, were showcased here by Microsoft. The new breakthroughs demonstrate that how innovative management is turning researcher’s ideas into reality and defining the future of computing. According to Hary Shum, managing director of Microsoft Research Asia (Buelva, 2006):

“Our mission is to transfer researches to products that could change the world. We focus our research on those areas where we believe we will make the biggest impact on people”

These aspects of innovation management make this search engine not only a good competitor, but also helped the users to solve the problem, to complete the task, by providing a better service. In sum, the role of management is very critical to induce or start innovation successfully. Though it is obvious for most industry observers and practitioners that the mandate and support of top management is essential to succeed.

## **2.2 Principle 2: Role of Customers Need in Service Innovation**

### **“Service innovation originates from customer needs or requirements”**

A prime point of attention of new service idea is the collaboration between the service provider and the consumer, and as a result to get development into new much appreciated solutions. Particularly, this is correct when we consider knowledge-intensive business services where client’s major concern is often the starting point of the innovation process. In fact, customers and service providers literally co-produce a new solution, which later further developed and formalized into a new service offering to a wider customer market (Salter & Tether, 2006). Broadly there are three ways in which customers can be involved: Say, See, and Make.

Say method (verbal communication) is useful for the past information for a product or service, which is simple enough to be described in words. A feedback form or service story can be classified under Say method.

The See method (Observation of a customer) is appropriate when a company wants to have present information of a service or product in use. For example, a car manufacturer observing user driving a car in different traffic conditions.

Make method (Customer produces ideas of their own) is appropriate to find ideas of the future. One example for the Make method is Open Source Software Development.

Customer involvement can be defined in various ways. According to Edvardsson et al. it means “being proactive and getting close to the customers in order to learn from and with them beyond what traditional methods such as focus groups, observations, questionnaires and interviews can provide” (Edvardsson, Kristensson, Magnusson, & Sundström, 2012). In literature, there are also different views on customer’s role in the service innovation. Edvardsson et al. suggested a comparatively new view to the customer, ranging from the consumer as a buyer, provider of information to the customer as a co-developer and developer, or subject of interest. (Edvardsson et al., 2012) (Wang, Chang, & Chiu, 2013).

### **2.2.1 Evidence from the Case Study: Important Role of Customers in Service Innovation**

Eastman Kodak Company: An American multinational imaging and photographic equipment, materials and services company. In 1976, this company own 90% market shares of sales of photographic films. From 1990, it started to lose market shares. The company was failed to recognize and adapt to changing market conditions, concluding that the service highly depends on product. In 1970s, the digital camera was invented by Steve Sasson, who was an electrical engineer working in the Kodak company. At that time, the picture quality produced by digital camera was not as good as the pictures got from film photographs. Even at that time, there were people in the Kodak company who agreed well about the importance of filmless photography. After Sasson presentation of the new technology to the company, the estimated time to make the technology viable for the consumer using Moore’s Law was within the 15 to 20 years.

As Kodak was addicted to the revenues generated by its 35mm film, they did not take any measures to innovate, rather then they decide to stick with their conventional products. Their lack of early investment in the innovative field of digital photography in 70s gave them double-whammy in 90s. Because that was the time when smaller companies like Sony and Cannon left behind the giant corporation (Kodak). Gradually, the entire film photography industry created by the Kodak company was finally relegated to second-class status behind digital by the 2000s. This story of Kodak should be an example for all those companies regardless of the size, that if you invent a technology with customer potential and then you ignore it, you do so at your own peril. In short, the corporations which fail to take benefit from the practical and reasonable applications of their intellectual properties are probably failed to repeat their fate on the same level. On the other hand, companies who can spot vacated opportunities with time will have much more success, no matter how profitable 35mm was at one point (Brachmann, 2014).

## **2.3 Principle 3: Correlation of Service Innovation and Quality Management System**

### **“Service innovation will be developed more frequently in those enterprises which quality management system are carried out more strictly than those ones which have less emphasized quality management system”**

The relationship between service innovation and quality management is not well described in the literature. The current studies emphasized a complex relationship (Bon & Mustafa, 2013). The intricacy has been appeared from the variety of quality management practices and diversity of its dimensions. They further considered the impact of quality management on various service innovation in manufacturing and other services firms in Vietnam (Hoang, Igel, & Laosirihongthong, 2010). Their findings designated that the quality management has not only a positive impact in term of innovation but also on the number of new products or service developed or provided by the same company. Similarly, Martinez-Costa

and Martínez-Lorente (2008) tried to find a positive link between the quality management and innovation (Martínez-Costa, Martínez-Lorente, & Choi, 2008). Martínez-Costa and Martínez- gathered and investigated the data from 451 firms in Spain. Later researchers gathered and investigated data from 93 companies in Spain too (Santos-Vijande & Alvarez-Gonzalez, 2007). The outcomes of the research indicated that the quality management has noteworthy effect on the administrative innovation. Those findings also presented that the relation between quality management and technical innovation is subjected to the firm's innovation and innovative culture (Leavengood & Anderson, 2011). Innovation oriented firms are active to the customer's requirements (Schniederjans & Schniederjans, 2015).

### **2.3.1 Evidence from the Case Study: Correlation of Service Innovation to Quality Management System**

As an example we have considered Starbucks who has established its brand in the marketplace as a high quality customer experience brand. The quality products and services in the Starbucks are sold at premium prices. When comparing to the other coffee brands, the high quality of products and good customer experiences are the main differentiators. The well designed stores of the company on theme of Italian bars provides a unique home like experience to its consumers. Starbucks has used aggressive strategies to sustain its position as a market leader due to intense competitive rivalry in the service industry, it has adopted branding strategy due to which it changed the logo that is more focused and highlights the sustainability of company policies. Starbucks executives allow product developers and make travel interdepartmental group called "inspiration", to go and see for consumer and fashion trends. Michelle Gass, senior vice president, led her team to Paris, Düsseldorf, and London, to visit local Starbucks and other restaurant chains, in order to understand the local culture, customs, and fashion. Starbucks adds free buffet milk in China to meet the Chinese people requirements (Panagiotaropoulou, 2015).

### **2.4 Principle 4: Creating a Good Working Environment for Service Innovation**

**"Positive company culture and harmonious working environment inside the organization are ideally for promoting service innovation."**

Successful innovation needs to be nurtured, it never happens overnight in any organizations. As per Bob Rosenfeld who is an innovator at the Center for Creative Leadership, the healthier the environment, the greater the results. He has provided some strong advices for all those organizations who want to be the leaders oin innovation. Innovation required a decent atmosphere within the organization to grow. This is considered a cultural characteristic and it should be must be encouraged and cherished inside a company. On the other hand, innovation requires thinking out of the box. Thus, these two are so dissimilar that for an effective innovation, one should be careful to encourage and allow suitable unconventional thinking. People who have a supportive supervisor, flexible workplaces, and low job stress, in simple words good working environment report greater work-life balance. Obesity in the workforce imposes pressures on employers, which in turn reduces their efficiency towards the designing and producing of services (Chandrasekar, 2011).

### **2.4.1 Evidence from the Case Study: Influence of Good Working Environment on Service Innovation**

Daewoo is the major and the one of the largest foreign investment company with properly organized and advanced transport system in Pakistan. Daewoo has not only introduced better facilities for the customers, but has provided the better working environment for their employees also. Concurrently, it is highly praised both by the Governments of Pakistan and Korea for its steady success. As Daewoo has a name all over the world due to interest in automobiles, consumer goods, financial and securities, construction, engineering and trade sector, Daewoo is working for the last thirty years and their motto is "from tile till ship". Daewoo Express is basically performing two key operations, both related to transportation of people and cargo. This shows how the company very quickly realized that their infrastructure could be enough for entering two dimensions in the transportation business. The best quality services including all the features that a passenger could dream of are something that Daewoo has realized in Pakistan. In sum, proper atmosphere to encourage innovation is highly correlated with the long term success of that company. All the elements explained above are critical for the effective innovation process (Chandrasekar, 2011).

### **2.5 Principle 5: Link of Service Innovation and ICT**

**"More and more service innovation will be linked with ICT technology, which is one of the trends of modern society or in information era"**

Information Communication Technology ICT is an abbreviation, meaning information communication technology. More and more traditional services and ICT technologies are combined to form a new service. Or further, led by ICT technologies, the development of a new service. Such services and ICT technologies, has become a very common phenomenon and trends, Like:

- Education: At present, most educational institutions are equipped with multimedia in the classrooms. In any educational institution, all teachers, students, researchers and administrator's benefits from the ICT.

- Banking: Now a day, computer is considered as a nerve center to any banking system around the world. It not only controls the entire banking system but also gave services for 'Electronic Banking Services'. These services are 24/7 available for the consumers.
- Industry: Recently, all the production planning and security control systems are operated using computers. In the industrial sector workers, researchers and administrator benefits from the usage of ICT.
- E-Commerce: E-commerce makes buying and selling activities efficient and faster within the company. For this application, computers, Internet and shared software are being used.

There is an important subject about the significance of ICT in endorsing service innovation as well as productivity which has gained a lot of attention in current innovation studies. This could transform the optimal structure of any organization by allowing some complementary organizational ventures like business processes and work exercises and thus allow firms to be adaptable (Timothy F. Bresnahan, Brynjolfsson, & Hitt, 2002). Numerous studies have explored the link between ICT and organizational innovation by emphasizing the importance of technological change. They considered these technological change as a driver for organizational changes within the companies (Danneels, 2002).

### **2.5.1 Evidence from the Case Study: Link of Service Innovation and ICT**

American Southwest Airlines: The company's network provides various types of information to passengers. In 2005 alone, about 70 % of passenger sales was through the company's Web site. Southwest Airlines' web site has revolutionized the trend of industry about selling the airfares ticket using several online travel websites. When fare promotions have been announced on the Internet, most of the airlines have been forced automatically to share the abundance through commissions or other forms of compensation with the larger online travel agents such as Travelocity.com, Expedia, and Orbitz. Another important thing which Southwest airline opted was to avoid middleman expenses by direct selling of tickets. "We've never believed that it was smart to put control of our destiny in someone else's hands," shared by a spokeswoman Beth Harbin from Southwest airline. Gradually, popularity of Southwest.com has made it one of the most heavily trafficked of any travel site in China. This airline has passed some of these investments on to the purchaser, offering discounts for fares booked online. "They've always operated as a low-cost leader so people will hunt for them," said analyst Lorraine Sileo of PhoCusWright (Sandoval, 2002).

### **2.6 Principle 6: Role of Top Management in Service Innovation (Role of One Person; CEO)**

**“Radical service innovation or significant service innovation are mostly the results of top management’s support, in which the top leaders (CEO or President) very often put forth the initiatives and directly push forward”**

New challenges have been created by cumulative complexity of work processes and the business atmosphere for top organizations, and consequently to their top managers. Thus, leadership style is very critical and has become a central determinant for the creativity of any organization (Dess & Picken, 2000). In this situation the success depends heavily on human capital, thus the selection of right manager with leadership skills and determination to lead a main inventiveness is being considered a critical decision a CEO has to make (Pohle & Chapman, 2006).

In larger organizations we believe the CEO or another senior executive is the most important person for innovation success. The CEO has the ability to (Hobcraft & Phillips, 2012):

- Link innovation to strategy
- Create focus, engagement and passion for innovation
- Direct funds and resources to good innovation programs
- Speed good ideas to market as new business models, products and services
- Ensure defined innovation processes and metrics exist so innovation is sustainable

#### **2.6.1 Evidence from the Case Study: Service Innovation-Driven Initiatives for Analysis**

Microsoft CEO: Bill Gates thinks, software is an art, so the software must have a rich imagination, but people only when alone, in your very own space, only the most imaginative. Bill Gates, for the development of its major software products, especially early in product development, has played an irreplaceable role. Independent personal space is important for software design, which is conducive to the creation of product, help to improve the productivity of innovation. Forty years ago, Microsoft was nothing but a tiny startup powered by a massive vision. Bill Gates and Paul Allen, both college dropouts, shared a dream that was seemingly impossible in 1975: to put a computer on every desk in every home. Today, it's hard to believe that Microsoft is only 40-years-old. The software behemoth boasts a workforce of nearly 123,000 employees and a Redmond, Washington, campus of 8 million square feet. Its Windows operating system, now more than 30-years-old, powers millions of devices around the world. After his rise to fame as Microsoft's CEO and world's wealthiest man, Gates has scaled back his role at the company. A philanthropic man, he chose to redirect the bulk of his

efforts towards the Bill and Melinda Gates Foundation, which aims at improving the quality of life within impoverished countries (Sheridan, 2015).

## **2.7 Principle 7: Dependence of Innovation to the Product Services**

**“Service innovation is also obeyed to product (service) life circle, especially the service linked significantly with some goods or technology, accompanied with those goods and technology going to the end of life, the service will be also going to the end of life”**

Service is also subject to the law of the life cycle. The new services also rely heavily on a product or a technology services will be with the demise of this product or technology out of the market. The auto industry of U.S. had suffered a lot of loss due to Japanese cars in the '80s, Also, the company IBMs failed to shift their focus from mainframes to PCs, due to which company nearly faced bankruptcy in the late '90s. More recent examples are Motorola, Nokia, and RIM (the maker of BlackBerry). Another reason for their failure was that their existing business models did not deliver the new technology. They did not modify the business models with new design, sales, manufacturing, marketing, branding, and other capabilities. The following are important points which should be considered to stop the failure in any company (Thrane, Blaabjerg, & Møller, 2010, Thrane et al., 2010).

### **2.7.1 Evidence from the Case Study: Dependence of Innovation to the Product Services**

Motorola once a well know company, got success with car radios, which ultimately led Motorola be the world's first mobile phone company. Till 2003, Motorola dominated the market of cell phones when it introduced the trendy Razr. At that time, this was as the biggest-selling mobile phone ever. But Motorola was unsuccessful to focus on the capability of smartphones to handle e-mail and other data, and eventually lost shares to the comparatively newcomers Apple, LG, and Samsung. And then the company was vanished so quickly that its cell phone department became a perennial money-loser and the firm announced plans to spin it off into a separate company, allowing the core Motorola to focus on networking equipment and a few other areas (Serrafero, 2015).

## **2.8 Principle 8: Capability of Disposing Resources is Related With Levels of Service Innovation**

**“The capability of disposing resources is related with levels of service innovation, the bigger, the higher level of service innovation, which is linked with the explanation of The Mode of Five-level Classification of Service Innovation (MFCSI) in Enterprises”**

Level of service innovation is a service proposed in this study to explore innovation in a hierarchical. Service innovation can be divided into five levels. The lowest level of service innovation, service staff generally only need to provide human skill aspects of services. The five are classified as the highest, namely the need to design or develop specialized services related to equipment or facilities, combined with the staff or departments, constitute a new service. Clearly, the ability to dominate the final decision on the resource level of service innovation, senior managers can authorize a way that subordinates have more ability to create new services and provide new services. Undoubtedly, the innovator should has resources needed to dominate innovation ability, thus, can more effectively promote the development of innovative business, like Jason Jiang and Fan Min. The ability to have greater control always is in favor of a high level of service innovation generation and development. Corporate middle is also available under the leadership of the top, or in the case management system, supported by resources. You can create a variety of innovations (Xu, Lai, & Gu, 2011).

### **2.8.1 Evidence from the Case Study: Capability of Disposing Resources is Related With Levels of Service Innovation**

BMW 's innovative Case: Every time a new car BMW R & D, project team members 200 people from various sectors of engineering, design , manufacturing, marketing , purchasing , finance , etc. Around 300 people from all over flock to the BMW Research and Innovation Centre, sometimes where a stay for three years. This face to face communication and collaboration accelerate the speed, which also accelerated the development speed of new cars. But also to avoid the conflict, such as marketing and engineering that may occur later in the project, but also improve the level of innovation.

## **2.9 Principle 9: Competition and Service Innovation**

**“Competition is the out force to push forward the service innovation, more competitive environment benefits the development of service innovation”**

Competition can lead to greater innovation, better design, better quality lower prices, and wider choice. Competition is a considered as a process of rivalry between companies which are seeking to win clients' business and trust over time. Competitive markets tend to lead to the cost efficiencies, greater choice, innovation as well as economic growth, which ultimately work in the interest of customers. It is the process of competition that needs to be protected and promoted. Competition among enterprises is normally in favor of; better service, faster service, and competitive pricing. Result of the service innovation promote new services continuously from the qualitative change seeking a competitive advantage

with new challenges. Innovation observatory has huge expertise in sizing and forecasting complex technology markets, and estimating market shares, both for client-specific projects and for published reports.

The focus of innovation is to compete by changing the rules. Successful innovation results in increased customer satisfaction and strengthened customer loyalty, which translate into increased repeat purchase, cross-selling of related Services and recommendations to others. Competition in the courier industry, resulting in a door -to-door delivery of new services. Competition in the Spring Travel Spring Airlines established a new service. Airlines are competing in exchange for concessions to carry out mileage accumulation or upgrade of new services. Competition also makes the hospital to provide more services to the patient reception, more advanced diagnostic services, the use of more advanced equipment, providing more additional services, and so on.

### 2.9.1 Evidence from the Case Study: Competition and Service Innovation

At early stage C-trip compete in market by adopting a unique strategy. Initially, the company proposes to use the C-trip brand to attract new travel suppliers and negotiate more favorable contractual terms with its existing suppliers, expand its hotel supplier network and room inventory, and expand air-ticketing and other travel product offerings. The company also intends to pursue selective strategic investments and expand further into the global market. In order to survive in this competitive environment, C-trip has been making aggressive investments, which is also a matter of concern. Recently, the company announced that it will spend \$100.0 million for the purchase of ToursForFun, a rival Chinese-language travel site. In 2013, the company purchased eHi Car Services, a privately held car rental company; a car rental business Yongche and travel search engine Kuxun. Besides investing in an e-commerce tourism ticket platform, the company is also spending on promoting its mobile booking service and mobile apps. Though these investments are expected to benefit the company in the long run, these could be an overhang on earnings and margins in the near term ("Zacks Equity Research, Ctrip.com Plunges, Faces Stiff Competition," 2014).

### Summary

The expedition for perfect service is endless. Innovative technologies, competition and customer behavior keep on constantly change the relationship between company and customer. But before chasing the latest trend, it's helpful to know where you stand. Here authors provide nine principles of service innovation and their implementation using various case studies. The principles are designed by keeping the view of their applicability to all variety of businesses seeking to be successful in the turbulent times facing different industries. Collectively, these principles are the key major factors about making a break with the way innovation has been done in the past and developing compelling products, services and value propositions for existing and new customers supported by a range of services.

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