Chapter 7
How Service Firms Manage Innovation:
Development Process and Factors of Success

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ABSTRACT

This chapter seeks to demonstrate that successful service innovation is often the result of a rigorous and systematic implementation of disciplined organizational and management processes. In the service industry, these innovation processes entail specific management qualities and unique management modes, which will be detailed and analyzed.

By acknowledging the strategic importance of developing and managing new activities in the service sector, the chapter studies the key business dimensions and performance drivers of innovation, and the determinants of new service success. Therefore, this chapter seeks to address three objectives: (1) yield a critical synthesis of research linked to managing innovation in the service industry, (2) provide a detailed study of innovation management and success factors within the service sector, and (3) determine the links between the service development process and how new services perform.

INTRODUCTION

In euphoric times, innovation appeared as an end unto itself. Progressively however, innovation has become a major strategic tool, and service business leaders have recognized the importance of innovation in providing a company with a competitive advantage. Today, new services are critical to the success, growth and prosperity of the service corporation (Bourgois & Jallat, 1994; Ostrom, Bitner, Brown, Burkhard, Goul, Smith-Daniel, ... Rabinovich, 2010; Rust, 2004). This change in perspective took informal approaches and statements out of the back seat and put more

functional and efficiency-focused ideas in the driver's seat.

Without overlooking the service industry's pioneering and landmark micro-initiatives (Virgin Atlantic Airways, Federal Express, Club Mediterranée, Médecins sans Frontières, First Direct…) and while underlining the major impetus some innovative entrepreneurs have played in the service industry (Guyaz, 1981), it would be hard to imagine the managerial approaches of (major) innovation doing anything but developing in the future (Colarelli O'Connor, 2008; Smith, Fischbacher, & Wilson, 2007). On the one hand, second-generation managers are now taking the reins from the founding fathers and, on the other hand, businesses in the services industry are concentrating, thereby favoring collective decisions over individual ones.

In its first part, this chapter sought to define and set out the boundaries of the study by examining the academic works which have been written on the process of managing innovation and its specific dimensions within service firms. Then, using the results of a qualitative survey carried out amongst four major service industries (budget hotels, specialty restaurants, retail financial services, capital life insurance), corporate practices are discussed and analyzed. At the end of this study, the chapter provides a number of management-focused operational recommendations and some conclusions.

For reference, Table 1 synthesizes the various aspects of the complete research from which this chapter is drawn, and the sources and the key objectives in each phase of the study.

DEVELOPING NEW SERVICES: A STATE OF THE ART

Despites the fact that service has become a pervasive logic framing all economic activity (Kindström, 2010; Normann, 1993; Vargo & Lusch, 2004), research in service innovation management is relatively limited. Furthermore, research in this area has two key limits:

- Research tends to be mainly exploratory, theoretical and conceptual, and sometimes deserves a more operational and concrete focus.
- Research does not hone in on the links between business performance and innovation, and with a few exceptions, only delves into the success factors behind innovation in the services industry, in an ancillary manner.

Literature focusing on product innovation basically relies on business models (Saren, 1984; Smith, Fischbacher, & Wilson, 2007), which define the process as a series of sequential steps. As show in Table 2, five or six major development stages appear in most of the systems put forth (Chaterji, Lonsdale, & Stasch, 1981). The innovation process usually breaks the new product project into discrete and identifiable stages, and at the end of each stage, the company decides to continue (Go) or stops the process and abandons the project (No Go). As previously pointed out, the goal here is to move from a 'tunneling' process where projects are rarely killed to a 'funneling' process where mediocre projects are culled out at each stage and resources are focused on the projects worth of consideration (Cooper, 1999). These sequential business models have proved to be sufficiently general, yet powerful, to be taken into consideration by the majority of the experts and researchers when discussing innovation development in service activities (Bowers, 1987; Clements, Stiff, & Czepiel, 1984; Jallat, 1994; Martin & Horne, 1990; Smith, Fischbacher, & Wilson, 2007) and observed differences between industrial development processes and consumer service activities development are mainly due to structural reasons more than to managerial causes: corporation practices and marketing concerns in the service sector are indeed less developed than

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