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## Editorial

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## 1 Introduction

In most developed economies, services account for the majority of both employment and output (Elche and González, 2008). The development of service innovations is a challenge not only for the service sectors and the public organisations, but service innovations are also considered as important triggers for the extension of service business in the manufacturing sectors. The ongoing trend from the production of goods towards that of services has given rise to an increasing body of research examining service innovations. Despite the growing number of studies, current literature provides only fragmentary insights into the links between service innovation and business success.

The topic of this special issue raises several questions of great practical and theoretical importance. First, the researchers and practitioners do not have a shared understanding on how to define service innovation. In addition, it is not clear how to make a distinction between service innovation and daily collaboration with customers. Prior literature provides conflicting answers also to the question of what is the impact of service innovation on business performance. Finally, the question of how to measure the

above impact demands further studies. This special issue takes up the challenge and aims at providing some answers and new insights to the above questions.

## **2 The links between innovation and performance**

Resting on the studies carried out in the manufacturing sectors, current literature presents several classifications for innovation (cf. Wan et al., 2005). Usually, there are two key aspects of innovation: the degree of newness and the scope of innovation. The degree of newness divides innovations into radical and incremental innovations while the scope of innovation separates product, process and organisational innovations (Cainelli et al., 2006; Dewar and Dutton, 1986; Lin et al., 2010).

The above classifications have been found to be less useful in services due to the fact that the boundaries between the commonly used categories get blurred in services and innovations can be simultaneously product, process and organisational innovations (Gallouj and Weinstein, 1997; den Hertog et al., 2011). On the other hand, the emphasis of innovations in services is on continuity rather than on newness (Voss et al., 1992), and thus innovations in services are considered to be less radical than in manufacturing (cf. Prajogo, 2006). Another distinctive feature of service innovations is that they often emerge along with the customer service process on the basis of customer needs and are recognised as innovations a posteriori (Toivonen and Tuominen, 2009). This is one reason why some researchers have separated the service product innovation from the service delivery innovation (e.g., Doloreux et al., 2008; Tidd et al., 2005).

Challenged by the above inferences, Gallouj and Savona (2009) have developed an integrative conceptual framework taking as a starting point the trend towards convergence between manufactured goods and services. They describe the service through three sets of characteristics: service characteristics, technical characteristics and competence characteristics. The service characteristics demonstrate the final users' value. This value is obtained through a certain combination of technical characteristics, which describe the tangible and intangible systems of an organisation used in the production of services. Each technical characteristic mobilises certain competences. The competence characteristics are composed of the individual skills of an organisation and its customer. (Gallouj and Savona, 2009; see also Toivonen and Tuominen, 2009). Resting on the above classification, Gallouj and Savona (2009, pp.163–164) define innovation as the changes having an impact on one or more of the above three characteristics. Thus, innovations can be intentional as the outcome of RD activities or unintentional emerging from an inertial learning process.

As regards the relationship between innovation and business performance, it has been studied with an emphasis on the direct relationship between innovation and performance (Acs and Audretsch, 1988; Cainelli et al., 2006), between innovation types and performance (Abrahamson, 1991; Forsman and Temel, 2011) and between innovation and performance affected by moderating or mediating variables (Bisbe and Otley, 2004; Zott, 2003).

Previous studies have demonstrated mixed results about the links between innovation and performance, some positive, some negative, and some have indicated no relationship at all (den Hertog et al., 2011; Forsman and Temel, 2011; Freel, 2000; Heunks, 1998; Prajogo, 2006; Rochina-Barrachina et al., 2010; Saunila et al., 2011). It seems that the fuzzy nature of service outputs makes it very challenging to measure the change and its

impact on performance (Evangelista and Sirilli, 1995). Also the question of what is the direction of causality has remained unanswered. Prior literature has mostly focused on the impact of innovation on business performance while it tends to overlook the reverse relationship, i.e., what is the extent to which innovation is stimulated by past business performance (cf. Cainelli et al., 2006; Davidsson et al., 2009).

As regards the links between the types of innovations and business performance, product and service innovations are usually developed with the aim to improve market position while process innovations are introduced for improving cost-effectiveness and productivity (Roper, 1997; Simonetti et al., 1995). Through radical innovations, firms aim to get access into new markets or even try to create new markets (Dewar and Dutton, 1986; Garcia and Calantone, 2002). Instead, through incremental innovations enterprises often pursue to enhance processes, make operations more effective, improve the quality and decrease costs (Dewar and Dutton, 1986).

Voss et al. (1992) argue that service innovations by nature are rapidly implemented but also easily copied by competitors, and this is the reason why service innovations have a relatively low impact on business performance. Nevertheless, more recent studies have reported a positive relationship between service innovations and business success. According to Cainelli et al. (2006), innovation in service firms has a positive impact on sales growth and labour productivity. Similar results have been introduced from the hospitality sector. den Hertog et al. (2011) found two direct financial impacts of service innovations; higher sales and lower costs, but firms also reported about indirect impacts such as quality improvements, improved capabilities to meet regulatory requirements and the chance of welcoming new categories of guests. This is supported by Saunila et al. (2011) who examined innovations in Finnish SMEs. Their study indicates that in service enterprises employees are provided with better opportunities for training than in manufacturing firms implying that learning is seen to be an investment rather than an expense. They also found that the employees of service enterprises have better abilities to be critical of inappropriate practices. These findings suggest that, through the creation of dynamic capabilities, the service firms may be in a better position to respond to a turbulent and rapidly changing business environment (cf. Teece et al., 1997). The concept of innovation capability is intangible by nature, which is difficult to measure directly. However, Saunila et al. (2011) argue that it can be measured by evaluating dimensions closely related to innovation capability.

den Hertog et al. (2011) introduce a new construct, innovation intensity, for the studies exploring the links between service innovation and performance. Innovation intensity combines two aspects: the diversity of innovations and the degree of the newness of innovations. den Hertog et al. (2011) found that innovation intensity is associated positively with growth in sales. This is supported by Forsman and Temel (2011), whose study reveals that in small enterprises characterised by the high diversity of developed innovations and the high degree of the radicalness of developed innovations, the annual sales growth is at a higher level than in non-innovating firms or in firms characterised by low innovation intensity. Nevertheless, growth in sales does not necessarily lead to a rising profit level. Forsman and Temel (2011) found that the best performing enterprises in terms of the rate of operating earnings were non-innovating firms and the firms characterised by the high diversity of developed incremental innovations. Also, den Hertog et al. (2011) highlight that innovations may result in higher sales but may also lead to lower profit levels.

Cainelli et al. (2006) make the point that there is a two-way cumulative and self-reinforcing link between innovation and performance, and thus the better performing firms are more likely to innovate and to devote their resources to innovation development. This is in line with Davidsson et al. (2009, p.399), who emphasise that innovation demands healthy economic structure in firms. Their findings demonstrate that when firms pursue high growth starting from low profitability, it often indicates that growth must be achieved in a head-to-head competition, and these enterprises are not able to finance strategies towards building hard-to-copy competitive advantages. Thus, the firms that pursue growth with low profitability will soon transit to below the average on both growth in sales and growth in profits (Davidsson et al., 2009).

In summary, several researchers have summarised that the excellent operation and success of organisations in almost all industries and in the public sector is becoming highly dependent on their ability to produce innovations (cf. Tidd et al., 2005). However, prior literature suggests that the relationship between innovation and success is not simple and there are a number of factors that have an impact on it. The six articles presented in this special issue offer a range of new insights into the complex relationship between service innovation and business success.

### **3 Contents of the special issue**

In the first article, Cheng examines the effect of dynamic service innovation capability on radical service innovation, and the moderating role of the open business model. The results based on the data provided by 209 senior managers indicate that dynamic service innovation capability has an inverted U-shaped relationship with radical service innovation. Further, an open business model enhances the positive relationship between dynamic service innovation capability and radical service innovation.

In the second article, Ropret, Fatur, Rodman and Likar identify innovation factors which have an impact on the performance of service companies. The results of this study point out that the factors which demonstrate the companies' attitudes towards creative employees and market orientation imply an innovation follower pattern within services, while the stronger companies' own incentives may be needed for breakthrough innovations.

In the third article, Biga-Diambeidou and Nlemvo analyse growth trajectories over a period of ten years adopted by 16 young French firms in the services sector. This study explores the existence of model development adopted by these firms and it verifies if the type of service sector affects the performance and the development model adopted by a business. Based on the results, the authors draw an emerging typology of the development models of micro size enterprises.

In the fourth article, Kim constructs a methodology which can be used by product-service system design teams to effectively deal with ambiguity and to communicate ideas among team members and managers, as well as with customers. The framework also forces design teams to break out of their standardised manufacturing-based thinking and helps them to stay organised and focused on customer requirements rather than being swayed by strongly opinionated team members or managers.

In the fifth article, Paillé, Morin and Grima link human resource management practices and the relationships of social exchange at the supervisory level to fostering

commitment to the customer among front-line public employees. This article focuses on the role of public sector managers in helping their subordinates deliver better service to customers.

Finally, in the sixth article, Aas has conducted qualitative in-depth interviews with the managers of the ten top performing firms that have an exceptional focus on service innovation. The results reveal that the management control systems implemented for service innovation activities in these firms were simplistic, one-dimensional and predominated by financial measures. The authors conclude that the service innovation management control systems are different from the management control systems that have been identified in the empirical studies of product innovation best practice.

With the above collection of articles, this special issue contributes to adding our knowledge about the links between service innovation and business performance. It provides both theoretical and empirical insights, tools and systems that can be used to manage service innovations in organisations. We hope that these articles will inspire discussion and will be a challenge for further studies.

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