



The determinants of new service development: Service characteristics, market orientation, and actualizing innovation effort

Chyi Jaw¹, Jyue-Yu Lo^{*}, Yi-Hsing Lin²

Department of Business Administration, National Yunlin University of Science & Technology, 123, Sec. 3, University Road, Touliu 640, Yunlin, Taiwan, ROC

ARTICLE INFO

Keywords:

New service development
Service characteristics
Innovation efforts
Market orientation

ABSTRACT

This study aims to understand how service characteristics, market orientation, and efforts in innovation together drive new service development (NSD) performance. Both qualitative and quantitative (mixed methods) research are used in researching these relationships: first, in-depth interviews from six service managers are taken to support the conceptual framework and investigative measures. Then, a survey research from Top 500 service firms and Top 100 financial firms in Taiwan is used to examine the research hypotheses. The results indicate that service characteristics of heterogeneity and perishability and market orientation positively influence a firm's resources and reward in innovation. Also, efforts in innovation and market orientation positively impact NSD performance. These understandings benefit the development of the innovative advantages of service firms in contrast to physical goods. Unlike prior research limited to a single service case, the empirical evidence here is supported by various service industries to develop a generalized model.

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1. Introduction

Intense international competition, rapid technological evolution, and the more mature expectations of customers have produced unprecedented challenges in the service sector. New service development (NSD) is an increasingly important concern in service industries (e.g., Edvardsson and Olsson, 1996; Johne and Harborne, 2003; Kelly and Storey, 2000; Menor et al., 2002; Mansury and Love, 2008). It refers to new services or service innovations that achieve superior performance and competitive advantage (Agarwal et al., 2003; Han et al., 1998). Moreover, Kwaku (1996b) found that differential factors affected innovation and performance in manufacturing and services firms. The notion that differences derive from the very nature of a service is widely acknowledged by most academics to studying service management. It can be assumed that new service development (NSD) is different from new product development (NPD) (Alam, 2002; Dolfisma, 2004; Stevens and Dimitriadis, 2004). This research focuses on the determinants for NSD performance.

Service characteristics include inseparability (simultaneous production and consumption), heterogeneity (the requirement for human effort and interaction), and perishability (service cannot

be kept in stock) (Locklock, 1983; Zeithaml et al., 1985). According to a review of the literature related to service innovation, service characteristics should be considered when preparing for the launch of a service and should indicate the differences between new service and new product development (Cowell, 1988). These inherent features pose more challenges to innovation than to physical goods, and a close relationship exists between service characteristics and the process of developing new services (Cowell, 1988; Dolfisma, 2004; de Brentani, 1995; de Brentani and Ragot, 1996). However, limited empirical works have explained how service characteristics predict an organization's innovations. Service characteristics can define the what and how of an innovation effort, and help identify the key factors of NSD. The transformation of any service offering will also require the transformation of some elements of the services. Actualizing efforts in innovation is an important function of business management because of the way those efforts influence organizational performance (Drucker, 1954; Marinova, 2004). Innovation efforts represent a commitment by senior management to reduce problems that result from the service characteristics. As a result, it is necessary to understand the links that help a service firm realize how service characteristics may be used to develop strategic efforts in innovation. Such understanding is to identify the critical factors of NSD that are different from NPD.

Much of the confusion over the years in defining marketing and in the understanding of marketing concept results from a failure to distinguish among marketing as a culture (e.g., Narver

* Corresponding author. Tel.: +886 7 5589141; fax: +886 5 5312074.

E-mail addresses: jawc@yuntech.edu.tw (C. Jaw), sixyu66@yahoo.com.tw (J.-Y. Lo), g9222709@yuntech.edu.tw (Y.-H. Lin).

¹ Tel.: +886 5 5342601x5231; fax: +886 5 5312074.

² Tel.: +886 5 5342601; fax: +886 5 5312074.

and Slater, 1990; Slater and Narver, 1994, 1995; Gebhardt et al., 2006; Kok and Biemans, 2009), as market intelligence activities (e.g., Kohli and Jaworski, 1990; Jaworski and Kohli, 1996), and as a strategy (e.g., Harmsen and Jensen, 2004; Homburg et al., 2004). However, there is broad agreement that market orientation as a philosophy consists of three core aspects (e.g., customer orientation, competitor orientation, and inter-functional coordination) base on the literature of market orientation. According to organizational theory, the market-oriented organizational culture grounded resource-based view (RBV) is considered an important resource in organizational performance (Hunt and Morgan, 1995). RBV regards resources as the ultimate source of performance differentials between firms (Barney, 1986, 1991). To be market-oriented is to view the market as an external success factor, one that will lead to suitable innovations for that market (Kirca et al., 2005; Narver and Slater, 1990). For example, Marinova (2004) found that understanding customer preference improves the market performance of a new product. When a firm invests efforts into developing customer knowledge, it may try to become best known for understanding its customers' preferences or needs by devoting innovation resources toward that goal, and creating a creative environment that rewards employees for reaching that goal. In addition, a firm's innovation efforts and NSD can also stem from the perceived extent of its competitors' efforts. Thus, an organization hoping to enhance performance through innovation should allocate resources proportionately to the market orientation most effective to the circumstances (Han et al., 1998). Only a small number of research studies, however, have examined the relationship among market orientation, innovation efforts, and performance. Next, prior research has used only a single service case, (e.g., banks in the work of Han et al., 1998 and hotels in the work of Agarwal et al., 2003). The structural relationships among market-oriented culture, innovation efforts, and NSD performance through empirical investigations of various service industries could advance a generalized model.

Despite NSD differing from NPD due to its distinctive features, most market orientation studies have ignored their effects (e.g., Agarwal et al., 2003; Conduit and Mavondo, 2001; Han et al., 1998). Service characteristics can help distinguish services from products and what might be included with service innovation (Dolfsma, 2004). However, the combined influence of service characteristics and market orientation on innovation efforts have yet to be addressed. While NSD is topic ripe for research (Alam, 2002; Mansury and Love, 2008), empirical findings do not yield a theoretical framework that can support effectively an understanding of the phenomenon. The purpose of this study, therefore, is to develop a new theoretical model of service characteristics, market orientation, innovation efforts, and new service performance. Creating NSD performance depends on its environmental, organizational and innovational context. This is the first attempt to test their collective validity and advance our knowledge of NSD.

From a method perspective, the triangulation design of mixed methods research provides the best framework for understanding the research problem (Creswell, 2003; Creswell and Plano Clark, 2007). This study follows the exploratory way of qualitative data → quantitative data → interpretive results. A case study will qualitatively explore of the determinants to new service performance by collecting interview data from participants in different service firms. A survey study will be used to measure the relationship between service characteristic, market orientation, and innovational efforts of the independent variables, and the new service performance of dependent variables. Thus, this study starts with an exploratory design of case study and then analyses the information to develop a survey instrument.

2. Conceptual framework and the hypotheses

New service is an innovation that directly or indirectly changes the form or quality of a service offering (Johne and Storey, 1998). The classifications of new service have been developed primarily by Booz et al. (1982) and Lovelock (1984). Comparing the two viewpoints, the broader categorization of Booz et al. seeks to capture varying levels of innovativeness (high, moderate, and low), which directly or indirectly changes a service offering. Services are now often defined as activities directed at creating changes or transformations of form, place or time of availability in some entities (Mansury and Love, 2008). According to Booz et al. (1982), new services include: (1) new-to-the-world services, (2) new product lines, (3) additions to existing service, (4) improvements and revisions to existing services, (5) re-positioning, and (6) cost reductions. It's important not to define new service too narrowly because of the high degree of transformation in any service offering. This classification has often been discussed in NSD studies (e.g., John and Storey, 1998; Alam, 2003).

As with the classic structure-conduct-performance paradigm (Thorelli, 1977; Marinova, 2004), innovation is assumed a conduct variable, is constrained by external (service characteristics) and the internal (market-oriented culture) structure of the firm and that its performance (NSD) is a result of the conduct to such structure. The conceptual framework of this study describes how service characteristics, market orientation, and innovation efforts collectively influence to NSD performance as illustrated in Fig. 1. We examine these relationships as follows.

2.1. The effect of service characteristics on innovation efforts

Innovation can be identified as (1) innovation output (new product success, time to market, and amount of new service), and (2) innovation input (research and development investments and efforts in innovation). Innovations will arise only if a particular level of effort is exerted to bring them to market. In reviewing service innovation studies, researchers seem to have focused mainly on innovation output (Marinova, 2004). Thus, in this study, the review of innovational efforts not only includes innovation resources but also their innovation rewards. Innovational efforts should be considered a key element of NSD (Agarwal et al., 2003; Han et al., 1998; Marinova, 2004).

2.1.1. Innovation resources

Innovation resources refer to the necessary inputs of time, people, and finance in the creation of new services (Henard and Szymanski, 2001). A new service planning department or team may be organized to manage new service schedules. New service technologies may be introduced to produce new service encounters such as e-service, or other IT system. Notably, all these efforts require the application of resources in the research and development process. Although the innovation process is uncertain, organizational resources must provide adequate support to ongoing NSD activities (Nohria and Gulati, 1996). The availability of innovation resources can enhance a firm's ability to learn more about customers' needs and wants, as well as new product development activities (Dougherty and Hardy, 1996). Accordingly, service firms must invest more in researching customer preferences, the process of trial-and-error, and evaluating new service results. This process allows the firm to gather feedbacks, which it should provide to the new service developments.

2.1.2. Innovation rewards

Innovation rewards refers to incentives used to encourage employees to create new services effectively (Dougherty and

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