



## Service innovation readiness: Dimensions and performance outcome

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### ABSTRACT

This study proposes a higher-order multidimensional construct of service innovation readiness (SIR) based on the organizational change literature and the awareness–motivation–capability perspective. Service innovation is gaining more attention due to its potential value for creating competitive advantage and improving organizational performance. This research conceptualizes SIR to consist of two adopting contexts (i.e., “strategic orientation toward service innovation” and “enabling mechanism of service innovation”) that, together, determine a firm’s preparation to adopt organizational changes involved in service innovation. Six dimensions are also identified from a literature review and verified by industry expert interviews to define the two multidimensional adopting contexts. Data collected from 312 Taiwanese firms provide evidence to support the proposed factor structure of SIR and show that SIR positively correlates with SI performance. The findings contribute to the literature by theorizing SIR with a parsimonious structure that captures the complex conditions necessary for adopting service innovation. This study also yields some insight into the management of service innovation by providing managers an assessment that can be used to gauge a firm’s status and direct its efforts in continuous improvement.

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### 1. Introduction

The world’s economic landscape is changing and is characterized, in part, by the fact that services dominate the economies of not only the world’s most advanced nations but also many fast-growing and developing countries. For instance, in China, the government has mandated a focus on services growth for the next five years and further into the future, despite that it previously allocated tremendous national energies on manufacturing [13]. In addition, many leading firms have added service to their product offerings and provide total customer solutions. Scholars contend that manufacturing firms should shift toward “solution” and/or “service” offerings to improve their competitiveness in an era of increasing commoditization that characterizes many product markets [95]. That is, companies across different industries are realizing they must compete in service to survive and grow in the future. As companies acknowledge the existence of the challenges, they may also recognize the need to stay innovative in their service offerings so they are prepared for increasing global competition.

Notwithstanding the trend, service innovation has remained among the least understood topics in the service management and

innovation literature [27,31,51]. The importance of service innovation is highlighted in a recent article that indicates “identifying drivers of sustained new service success” is a prioritized research topic for the science of service [75]. As noted by Jim Spohrer, Director of Service Research at IBM, “people have a good idea of what technological innovation is, but service innovation is more hidden.” [49]. The dearth of insights on how companies can prepare themselves for service innovation is noteworthy when one considers the potential of service innovation to drive revenues and affect people’s lives. Hence, it would be a top priority for firms to be able to evaluate their readiness for service innovation prior to considering other issues pertaining to the implementation of service innovation.

“Readiness” is not a novel concept in the literature, and a review of the literature reveals a number of prior studies that have investigated individuals’ readiness to adopt IT, IS, or technology [57,76]. The readiness concept becomes more complicated when an organization, rather than individuals, is the focus of adoption because firm-level readiness for innovation tends to depend on a wide variety of factors. For example, several studies have focused on human, business, and technology resources as organizational readiness factors required for adoption of innovation [56,71]. Others give more emphasis to attitude of top management [68], organizational characteristics [26,46], or environmental conditions [56]. These studies suggest that research on firm-level readiness can, at best, only provide a partial explanation of the phenomenon and it is difficult to develop a unifying, one-size-fits-all framework of innovation readiness since the framework may

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be sensitive to the type of innovation and its adoption context. Although one might expect these readiness factors to be equivalently explanatory when applied in the context of service innovation (SI), one should avoid such facile generalization of prior research findings without taking SI characteristics into consideration. In sum, what has been noticeably missing from the literature is a robust framework and instrument to study the factors that affect readiness for service innovation and firm-level empirical evidence to explicate these factors.

Against this background, we propose the concept of service innovation readiness (SIR), which signifies a firm's self-assessment of its readiness for effectively implementing service innovation. To our knowledge, no construct in the literature of innovation and service science has fully captured this aspect of service innovation. The purpose of this study, then, is to demarcate the SIR concept and a corresponding framework that can be used for developing an inventory. To accomplish the purpose, the organization change (OC) view [5] and the awareness–motivation–capability model of competitive perspective [19] are used to develop a factor structure for SIR. To more precisely describe the compound structure of SIR with a parsimonious framework, we conceived it as a higher-order composite construct consisting of two multi-dimensional constructs that specify the conditions necessary for building up a firm's readiness for service innovation. We validate this construct and its measurement with a survey of 312 firms in Taiwan.

In doing so, this study makes several significant contributions to the extant knowledge of service innovation. First, it addresses an emerging but understudied topic by conceptually and empirically examining the critical managerial dimensions underlying service innovation. By identifying the actionable conditions and mechanism that constitutes a firm's SIR, this study tackles an important issue that has been identified as a top research priority in service science [75]. Second, our conceptualization of SIR as a higher-order formative construct allows this study to delineate what actions and resource of the firm should be attended to and how they can be integrated to enhance service innovation performance. This study validates the conceptualization of SIR with findings in support of the predicted relationship between SIR and its determinants and consequences in a nomological net. Third, being empirically supported as a reliable and valid measure in this study, SIR offers a useful tool for self-diagnosis and a practical guideline that managers can use to create organizational strategies and resources to prepare the firm for adopting service innovation.

The remainder of this paper is organized as follows. The next section provides an overview of service innovation, and this is followed by a theoretical conceptualization of SIR. Based on literature review, we identify two determining factors of SIR and their corresponding dimensions. In later sections, we report the research methods employed and the empirical validation of the SIR instrument. Finally, we present a discussion of results and their implications, and directions for future work in this area.

## 2. Service innovation

Despite an extensive literature on service management, service marketing, and service innovation, frameworks for managing service innovation remain scarce [39,70,92]. Early work focused on differentiating services from goods based on four characteristics, namely intangibility, heterogeneity, inseparability (or simultaneity of production and consumption), and perishability (inability to inventory service output) [99]. Yet, emerging views argue those characteristics are not generalizable to all services, while many goods actually possess one or more of these properties [59]. For example, tangible goods are often purchased for intangible benefits and are heterogeneous. A strong argument about the inappropriateness of such a distinction, proposed by Vargo and Lusch [95], suggests that the attempt to define service by contradistinction from tangible goods

prohibits a full understanding of the rich roles of service in an exchange. Furthermore, they posit that “service is the fundamental basis for exchange” and the value of products (i.e., goods and services) is mainly through the “service” that is provided to customers [60,95]. Taking this broad perspective, service can take different forms to include the core offerings, as well as the activities that enhance the value of technical and manufactured products or that, when combined with tangible products, provide a total solution for the customer [13]. The recent tendency toward industrialization in services and customization in manufacturing, which has blurred the distinctions between manufacturing and services [24,31], also supports of the need for a broad view of service.

Along with the “services versus goods” distinction, there is an ongoing debate about whether service innovation can be analyzed using the same concepts and tools used in manufacturing innovation. The diversified views of service are further illustrated in the conceptualizations of service innovation. Coombs and Miles [24] distinguish among three different approaches to define and study service innovation, which reflects the existence of distinctive assumptions about service innovation. The first approach, taking an assimilation perspective, proposes that the theories and concepts developed in manufacturing contexts can easily be transferred to understand service innovation [24,31]. Evidence in support of this perspective shows that differences between services and manufacturing are smaller than within the service and manufacturing sectors, respectively [90]. The assimilation approach, however, has been questioned for its limited focus on analytical frameworks primarily derived from manufacturing without consideration of the idiosyncrasies of services [31]. The second approach, a demarcation perspective, emphasizes the distinctive features of services that, in turn, make it difficult to transfer knowledge from manufacturing to services [37,73]. The danger of the demarcation perspective lies in inferring that these peculiarities (e.g., intangibility and heterogeneity) are unique for services, whereas they might actually be as characteristic of manufacturing. By broadening the innovation concept to encompass features of service innovation, the demarcation approach brings to the forefront hitherto neglected elements of innovation that are also relevant to manufacturing.

Inspired by the demarcation view, the synthesis stream, as the third approach, focuses on efforts to bring together innovation in services and manufacturing rather than studying the two fields separately [24,31,73]. Gallouj and Weinstein [41], among the first to theorize a synthesis perspective on types and elements of “products,” explicitly offer an integrative framework to the study of innovation in both services and manufacturing sectors. In fact, as researchers have gradually acknowledged that service innovation constitutes a distinct research area, the need to argue in favor of the specificities of service innovation with regards to product innovation in order to justify research on service innovation also declines [33]. Many scholars now turn to the trend of trying to synthesize innovation research in product and service innovation [24,31,40]. The synthesis approach, together with the emerging logic that views service as the fundamental basis of exchange [95], illuminates the call for a broader perspective of service innovation that can be applied to different industries.

Accordingly, we refer to the recent work of Ostrom et al. [75] and define service innovation as the practices to “create value for customers, employees, business owners, alliance partners, and communities through new and/or improved service offerings, service processes, and service business models.” The definition reflects that service innovation may induce changes in multiple aspects of the organization (e.g., service concept, service delivery process and revenue model). Such a definition of service innovation is also broad enough that it can apply to both service and manufacturing industries. Because managing the various changes could complicate the service innovation efforts, it highlights the significant role of a firm's readiness for the changes.

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