

Introduction

In the most advanced service economies such as the USA and UK, services create up to three-quarters of the wealth and 85% of employment, and yet we know relatively little about managing innovation in this sector. The critical role of services, in the broadest sense, has long been recognized, but it is still not well understood:

“The productive activities of such a firm are governed by what we shall call its ‘productive opportunities’, which comprise all of the productive possibilities that its ‘entrepreneurs’ see and can take advantage of. A theory of growth of firms is essentially an examination of the changing productive opportunity of firms ... it is never the *resources* themselves that are ‘inputs’ in the production process, but only the *services* that the resources can render. The services yielded by resources are a function of the way in which they are used — exactly the same resource when used for different purposes or in different ways and in combination with different types or amounts of other resources provides a different service or set of services” (Penrose, 1959, pp. 25–31, emphasis in original).

To date almost all research and management prescriptions have been based on the experience of manufacturing and high technology sectors. Many assert that such practices are equally applicable to managing innovation in services (e.g. Levitt, 1972; Fitzsimmons and Fitzsimmons, 2000; Myer and DeTore, 2001), whereas others argue that services are fundamentally different (Bitran & Pedrosa, 1998; Gallouj, 1998). There is a clear need to distinguish which, if any, of what we know about managing innovation in manufacturing is applicable to services, what must be adapted, and what is distinct and different such is the goal of this book.

In this unique collection we bring together the latest academic research and management practice on innovation in services, and

identify a range of successful organizational responses to current technological opportunities and market imperatives. The contributors include leading researchers, consultants and practitioners in the field, who provide rigorous yet practical insights into managing and organizing innovation in services. Two themes help to integrate the contributions in this book:

1. That generic good practices exist in the management and organization of innovation in services, which we seek to identify, but that these must be adapted to different contexts, specifically the scale and complexity of the tasks, degree of customization of the offerings, and the uncertainty of the environment (Tidd, 2001).
2. That innovation in services is much more than the application of information technology (IT). In fact, the disappointing returns to IT investments in services has resulted in a widespread debate about its causes and potential solutions — the so-called “productivity paradox” in services. Instead here we adopt a broader notion of innovation, including technological, organizational and market change (Tidd *et al.*, 2001). The key is to match the configuration of organization and technology to the specific market environment.

The book is divided into three parts. In Part I, we introduce a collection of conceptual and analytical frameworks which help us to better understand the organization and management of services. These include a model derived from our own research and consulting, SPOTS (Strategy, Process, Organization, Technology and Systems), well-established and proven approaches such as PIMS (Profit Impact of Market Strategy) applied to services, and more recent concepts such as CAC (Customer Activity Cycle), and Knowledge-Intensive Business Services (KIBS). We apologize in advance for the numerous acronyms, but this is a characteristic of much management research from which we are not immune.

In Part II, we explore the empirical evidence from a range of national and sector studies. This features country studies from many advanced service economies, including the USA, UK and Germany,

and sector studies of the most significant service industries, including finance and healthcare, as well as less commonly researched but emerging segments of the service economy, such as construction and manufacturing related services.

Finally, in Part III, we develop a model of innovation in services, focusing on the development and delivery of services. This is derived from our own extensive research and that of others, and has been applied and tested in practice in a diverse range of service organizations. It is presented as a consolidation of our understanding of innovation in services, rather than any definitive model of “best practice”. In this way it represents the start of a new research agenda in service innovation, and the basis for improvement and experimentation in managing innovation in service organizations. We end the book with accounts of leading service organizations which have begun to apply many of the practices and processes identified here, which help to demonstrate the significant potential for improving the management and organization of innovation in services.

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