

## REVIEW OF SERVICE INNOVATION IN CZECH COMPANIES

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### **Abstract**

This paper and further research describe approaches to the process of service innovation. According to the OECD, service innovation is considered as a product innovation. However, specifics of services compared to physical products (such as their immateriality, etc.) also bring innovation specifics. At first, based on the literature review the definition of services and existing theoretical approaches to service innovation are presented. Comparison of the innovation process of physical products and services is also explored. Consequently, research in companies is realized. We use qualitative research at Czech companies in the service industry. NACE classification is the main criterion for defining the basic data set. In-depth interviews with selected companies are realized in this research. The main objective of the research is to answer questions such as what are the specifics and problems in service innovation, who is involved into the innovation process and which innovation techniques are used. Trends in innovation management as collaboration with customers and open innovation in general are also included. The main contribution of this research is to compare the theoretical knowledge with the real situation in Czech companies. As a result, the research establishes hypotheses regarding the process of service innovation. Testing these hypotheses will be part of the following research.

**Key words:** innovation process, services, service innovation, qualitative research

**JEL Code:** O31, M10

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### **Introduction**

The aim of the research is to analyze the innovation process in companies whose principal activities are services. The main aim is to detect problems that firms face when innovating services across the innovation process. The assumption is that these problems are specific compared to the physical nature of product innovation. The inductive approach was used in the research, so general conclusions were derived from partial knowledge. Qualitative research was realized. Therefore, hypothesis formulation is the result of research.

## 1 Literature review

### 1.1 Services

To properly understand service innovation, we have to understand the term services. According to Goffin and Mitchel services are “*heterogeneous range of intangible products and activities difficult to encapsulate within a simple definition*” (Goffin & Mitchell, 2010)

Although it might seem difficult to define services, several characteristics are described by academics and practitioners. They name five basic characteristics of services: intangibility, customer contact, inhomogeneity, perishability and multifaceted nature (Goffin & Mitchell, 2010; Junarsin, 2010; Kotler & Armstrong, 2009)

Lightfoot and Gebauer (2011) explain that services are becoming the main differentiating factor in a totally integrated products and service offering.

Intangible in terms of services means lack of possibility of touching the product (i.e. service) or its component. (Junarsin, 2010) However, often services comes together with products, as an extension or complement. This concept is described by (Goffin & Mitchell, 2010) as The augmented service offering or Service augmentation.(Shelton, 2009)

Customer contact is often connected with services. Junarsin (2010) divides customer contact into three levels starting with interpersonal service with highest level of the involvement, remote service as the medium stage and self-service with the less or no involvement. Hidalgo (2014) also reminds that customers are involved in this activity by co-creating of the value or even co-producing. The topic of customer involvement was also covered in the previous work of the authors of this paper. (Kolis & Jirinova, 2013)

The third characteristic of the service is inhomogeneity. Junarsin (2010) provides good example of this attribute: “*different provider of the service will deliver unequal level of the service*” even considering the same company. Therefore the inhomogeneity is significantly connected with the personality of the employees involved in the relationship between customer and the company (usually front-office employees). This thesis confirm also Gebauer et al. (2008) who emphasize the importance of frontline employees in order to actual delivery of the service.

Perishability can be explained as binding with a specific place and time. Therefore service cannot be stored.

The last characteristic of the service – multifaceted nature is described as a combination of all preceding characteristics. Junarsin (2010) suggests analyzing of each element in relation to every other characteristics, because they are all tied together.

Services should be brought also from another perspective, not just as the complement of the product. According to the common division of economy sectors, the third sector is the sector of services. In developed economies, the service sector accounts for more than 60 % of GDP and the ratio is one of the indicators of the development stage of the country. (Junarsin, 2010)

## 1.2 Service innovation

Services have more significant role in current (western or western-like) economies, therefore the role of the service innovation is brought at the forefront.

Robert Shelton (2009) reminds that *“product innovation alone does not produce sufficient or sustained competitive advantage and growth”*. Product together with service innovations generates greater customer value.

According to OECD (OECD & Eurostat, 2005) service innovation is considered as a product innovation.

Shelton (2009) describes company maturity level based on the involvement of the services and service innovation in processes of the company. The higher stage in the model the greater portion of sales revenue could be derived.

## 2 Data and sample

The research was conducted through in-depth interviews with experts. Two groups of experts have been addressed. First, experts of everyday life, i.e. experts from companies, people who know the everyday problems and have a real experience of the executive. Second, experts from organizations that support innovation, people who have perspective and are able to see trends.

In terms of the innovation process, there is a difference in the first group - experts of everyday life, whether they are from the well-established company with well-defined processes, or from the startup, which is typical for dynamic development. Research respondents were approached both from established companies and startups. Although, there was a condition for startups: at least 3 years of operation. This condition provided a sufficient time interval for evaluation of what works and what does not. NACE classification was the precondition for inclusion in the research.

The second group consisted of experts from organizations that support innovation, whether consultants or representatives of associations. The main criterion for the selection of experts

was their active work and participation in professional conferences and events. On the other hand, experts from academia were not involved in the research.

We prepared questions for semi-structured interviews that were thematically grouped in several areas: services and service innovation, innovation process, problems with innovation and trends. There were two versions of an interview schedule – for experts of everyday life and for experts from organizations that support innovation. Their focus was identical. Our goal was to capture detailed answers so we can later analyze even the small nuances in content. We used open-ended questions, e.g., “What are the differences between service innovation and innovation of physical products?”, “What is the biggest challenge in service innovation?” and “What services in the Czech Republic is developing the most and why?”

We conducted 9 face-to-face in-depth interviews. 4 of them were interviews with experts of everyday life and 5 interviews with experts from organizations that support innovation. Each interview was conducted for approximately 90 minutes.

The answers were evaluated using content analysis techniques following the procedure established by Mayring (2000). This approach works well in previous research (Andera & Lukeš, 2014). We developed categories based on the questionnaire structure, for example problems in the innovation process. Then we worked through the interview material and determined complementary categories, for example employees for problems in the innovation process. In this way we processed all categories: services and service innovation, innovation process, problems with innovation and trends. Appropriate structure for coding interviews was developed this way. This structure was used for analysis of all interviews.

### **3 Results**

We found some very interesting results. The first is the strong influence of culture, education system and historical context of the Czech Republic on innovation. This aspect plays a big role in services due to the typical high customer – front-line staff interaction. The problem is both the customer and at the front-line staff. In general, the Czechs are conservative and satisfied with the current state. From the perspective of the company it is difficult to succeed in the market with innovations. At the same time, companies need to sell innovations to employees: *“There's a difference when we look at physical products and services. At one point, the machine starts to fall out new physical products. But with services... There's a big problem with implementing something new. People need to start behaving differently.”*

Another conclusion refers to the degree of creativity in service innovation. Among the respondents are appreciated positive cases such as innovation in transport (Student Agency company) and banking (Air Bank company). At the same time they mention that it is nothing dramatically new: *"We have clean trains running on time and employees who smile at customers and it is a great innovation. But this is standard in Germany or Austria."* There is a consensus that the future will need a higher level of creativity in order to gain a competitive advantage. A possible way is to focus on business model innovation, this means to change the paradigm of who pays the company and for what. For example, the specific use is shown by the earlier work (Špaček & Štěpán, 2013). Another way is to come up with a completely new service concept. In this sense, it was frequently mentioned the example of Ambiente company, which is involved in food services and repeatedly came up with new concepts.

Another conclusion concerns the use of innovative techniques. It is known that systematic management of the innovation process is typical for large established companies. The use of innovative techniques is a precursor to a controlled process of innovation. It appears that the use of innovative techniques is typical for large established companies as well. In the case of services, the innovative techniques are used primarily to obtain empathy with customers, to generate ideas and for prototyping. Research shows that these techniques are used mainly by large firms. Small businesses know their customers well, have an intuitive approach to innovation, proceed iteratively and prototype continuously in production: *„We do not have a systematic approach. We start from our customers and then proceed intuitively. It is always the interplay of several factors.“* On the other hand, can be seen the emergence of lean startup trend in companies of all sizes. The main point is to fail quickly and cheaply. This trend responds to a common problem in companies - overestimation of the benefits of innovation for the customer and the subsequent failure: *„I see a trend to return to the people, let's make innovation around the customer, not to force our ideas that finally fail.“*

This corresponds with another trend - open innovation. In the case of services is mentioned more frequent involvement of customers in the innovation process. However, research shows the dangers of dogmatic interpretation of "customer is always right". Therefore, the next result is a warning to the dangers of deadlock in solving secondary problems in terms of doing exactly what our customers say. Research participants mentioned the necessity of own vision, the perspective and the ability to see the big picture.

To summarize, research shows a high role of individuals in the innovation process on the part of companies. For successful innovation in services is needed a person who has a strong vision and is not afraid to take risks. It is necessary to be prepared to be a leader and educate

employees and customers. The focus on the consistent implementation plays a big role. Food services, transportation, and banks are considered as the most developing area of services in the Czech Republic. In all cases, respondents mentioned specific names of individuals, which could be attributed to a significant influence on this development.

#### **4 Conclusion and limitations**

The research results can be summarized in the following hypotheses: 1) Successful service innovation are based on company's ability to quickly identify customer's needs. 2) New service concepts and business models for services are generated through own vision, not dogmatic fulfillment of customer requirements. 3) Innovative techniques are used in large companies, small companies use intuitive approach. 4) Strong leadership personality is a prerequisite for successful innovation in services. 5) Implementation is the most important problem rate with service innovation.

Limitation of research can be seen in the selection of respondents. The selection of experts was designed according to the best knowledge and belief. Nevertheless, it is real that when addressing other experts, the results could be different. Furthermore, the low number of respondents is another limitation of this research. This problem is typical for qualitative research. Therefore, research continues with additional respondents. In the future it is also planned quantitative research that would work with the hypotheses formulated in this work. Another limitation of the research is due to the chosen form of qualitative research - interviews. The advantage of interviews is a direct answer to the research question. On the other hand, the answers are subjective and may – even unconsciously – distort reality. For this purpose it would be useful to use several research methods such as observation.

#### **Acknowledgment**

This paper has been published as a part of the research with financial support of IGA VŠE 1243/2014

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