



From Understanding to Exploiting Service Innovation- *Perspective of Transition Economies*

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Distinctive Features of Service Innovation (SI)

- Innovation in service sectors and in service activities (horizontal)
- Innovation along the whole value chain creation, not only in R&D
- Incremental and invisible changes
- Less formalised, require less R&D
- Main drivers of SI are skilled and creative people & cooperation and interaction
- Essential role of demand/user driven innovation
- Difficult to capture and measure SI

**Service Innovation (SI) = hidden innovation &
neglected innovators**



Complexity of Service Innovation (SI)

- **Typology of SI:**
 - Technological** or technology induced innovation (*e-banking*)
 - Non-technological or organisational and marketing innovation** provide new solutions to customer needs (business models, distribution channels, customer interfaces) (*low cost airlines*)
 - Social innovation** addresses social needs, improves social cohesion
- **Complementarity between different types of service innovation: at the same time firms generate, adopt and implement multiple forms of innovation** (*Ipod- technological, organisational, design, business model*)
- **Special role of knowledge intensive services as catalysts and enablers of innovation processes throughout the economy** (*e.g. consultancy services, marketing, IT services, technical services*)



CHALLENGE for transition economies

To understand service innovation and translate its distinctive features and complexity into appropriate policy support that would facilitate the exploitation of service innovation



Why is Service Innovation Important for TE?

- In most TE services occupy between 50%-65% of value added and employment (Latvia > 70%);
- SI as main factor in the renewal process of manufacturing enterprises
- Services are key inputs into all sectors, they contribute to value creation, enhance the efficiency and welfare
- Public services also face the imperative to innovate due to budget constraints and growing need for health&education&social services
- Service innovation is linked with global societal challenges and could provide solutions (e.g. environment, climate change, aging)



Barriers to SI in transition economies (1)

General and service-specific barriers to innovation

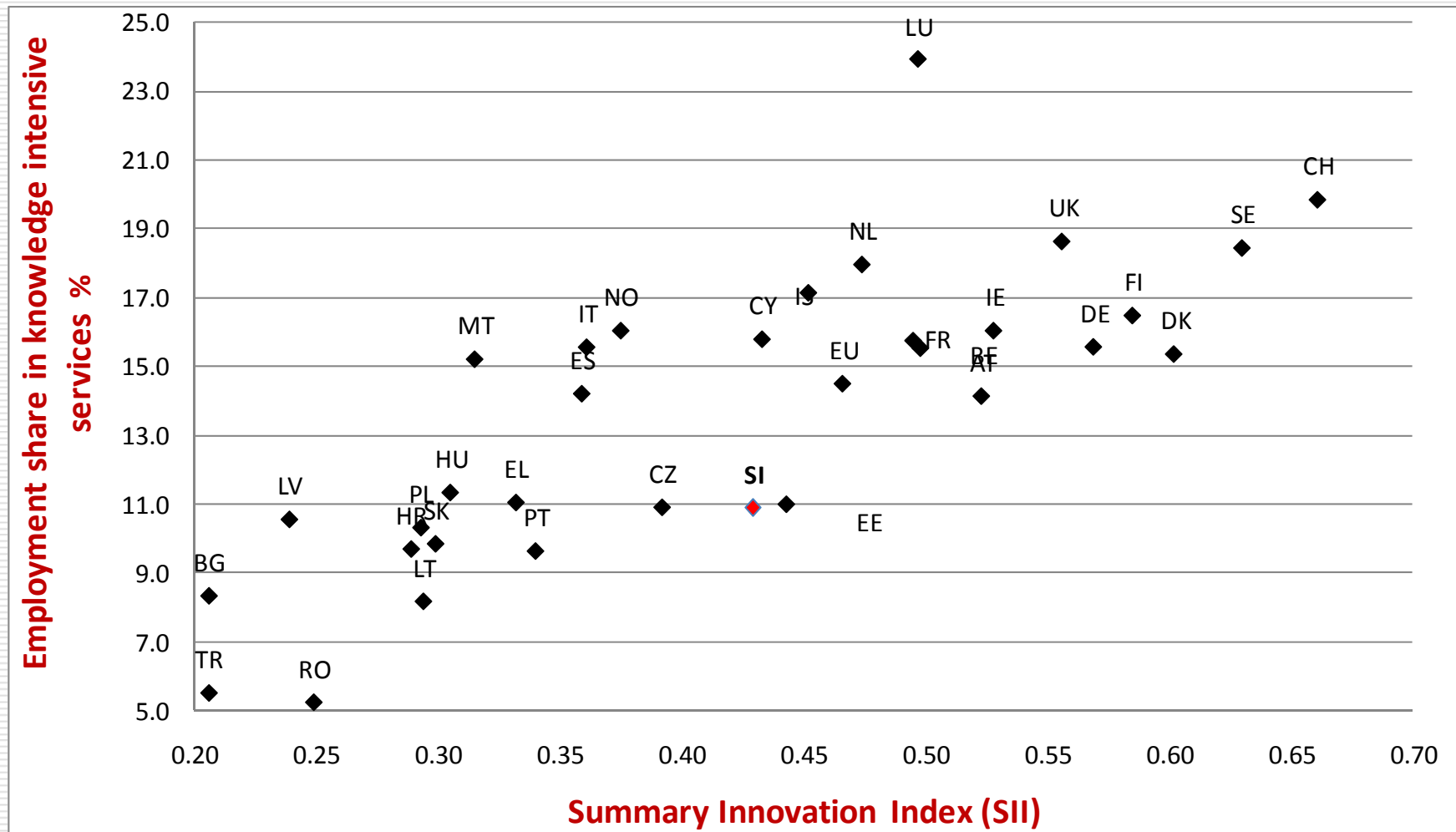
- Past legacy and focus on “how to produce” (technical issue) while “how to market”(non-technical issue) was neglected
- Lack of managerial and marketing competences and skills needed for the success of innovation process
- Limited financial resources
- Services are not sufficiently appreciated in TE as drivers of growth, economic efficiency and welfare (*services as unproductive labour*)
- Innovation policy focus on instruments, mechanisms and institutional framework that supports technological innovation (from R&D to infrastructural support)



Barriers to SI in transition economies (2)

- Service culture defective, role of consumers neglected – obstacle for user driven innovation
- Insufficient competition in services: slow deregulatory process, gaps in institutional and absorption capacity to implement new regulation
- Organisational innovation, which is more important in services critically depends on the availability and sophistication of knowledge intensive services (KIS)
- TE lag behind advanced countries the most in KIS, which are deemed essential also for innovation activity in general (correlation coefficient= 0,81)

Knowledge intensive services and innovation (Cor.coef= 0,81)





Service innovation is emerging in TE...

- ... and is not limited to service sector; it takes place in service activities as well
- SI is mostly related to diffusion of ICT and accompanying services
- Organisational and marketing innovation is introduced via of new management techniques, new distribution channels and changes in relationships with customers
- Entrepreneurs do not refer to SI, but rather to process changes, new business models or at best to non-technological innovation
- Cases of good practices of SI exist, but are poorly communicated
- Policy support to SI is in its infancy, few supporting measures introduced by NMS (vouchers, innovation awards..)



Steps to services inclusive innovation policy (1)

- Awareness raising among different actors on benefits of SI (mindset changes are difficult and gradual)
- More explicit attention to the innovation in the service sector is needed and introduction of appropriate policy measures, but...
- ...also horizontal approach to policy design, but this requires policy coordination among governmental bodies and institutions in supporting SI
- Promotion of research related to SI (innovation management, user-driven inno, marketing, design)
- Introduce innovation topics at all stages of education and training; interdisciplinary skills are highly relevant as SI crosses disciplines



Steps to services inclusive innovation policy (2)

- Existing measures of innovation support could be applied to SI
- Careful design of measures for the support of organisational innovation; adapt criteria to SI properties
- Identify good local practices of SI & learn & disseminate
- Enhance measures that target demand/user driven innovation (e.g. public procurement)
- It is not only policy measures that support “big projects” at the national level that matter, but also small and local – learning to cooperate among actors might be easier
- From policy imitation to policy learning - good practices of SI in advanced economies need to be adapted to specific socio – cultural setting in TE



Message

Enhancing and exploiting SI is a long term process of learning (by doing) that necessitates mobilization, cooperation and coordination of stakeholders from business, research & education, public administration and civil society