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**Innovation in Service Sector:
Theoretical Framework and Case Studies of Japanese Services Firms
(Preliminary Discussion)**

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Abstract:

This study aims to investigate the innovation process in services firms. As there are increasing contributions of service sectors to the economies of both developed and developing countries, there are calls for detailed studies of innovation in service firms. While the arguments on typologies of services and innovation in services cannot gain a consensus at the moment, recent research investigated the drivers of service innovation. However, the innovation process, especially, how the innovation in service is created has not been fully addressed. Though there is increasing emulation between the service and manufacturing organization of production, the difference between the two sectors regarding the outcome of the production/conversion process remains. Thus, attempts to scrutinize large scale, well-established Japanese service firms that represent both the restrict-service model (adopting manufacturing logic of production) and the full-service model (adopting manufacturing logic of production is difficult if not impossible) regarding innovation activities might contribute to better understanding of the innovation process, especially the sources of innovation in service firms. However, this paper is a preliminary discussion on the topic and will need further interviews for case studies as the next step in the study.

Introduction

Interest in research on innovation in service might have been the result of the realization of the increasing contribution of service sector in economies, i.e., creating jobs and Gross Domestic Product. For example, in 2006, service sector accounted for 73 percent of GDP and 76.4 percent of total labor force in the U.S.A. and 75 percent of GDP and 80.4 percent of total labor force in the U.K. The same trend is seen in Japan where 69.6 percent of GDP and 66.8 percent of the labor force was contributed by the service sector in 2003.

The increasing contribution of the service sector to the economies is supported by many factors. Among others, one is the increasing outsourcing of the manufacturing sector and the other is the diffusion of information technology and the increase of the infrastructure in this area enabling diffusion of services in unconventional forms, e.g., online-business.

Pursuing cost advantages, many manufacturing firms practice outsourcing which in turn helps enlarge service sectors. That is because approximately 80 percent of production process engages with activities that embody service nature (e.g., research, quality control, logistics, maintenance, waste management, and so forth).¹ In addition, there are necessities to differentiate companies' offer by services due to the commoditization in many sectors of manufacturing. All of these phenomena make the service once perceived as subordinate or supplemental to manufacturing more prominent Giarini (2002).

For the above-mentioned reasons, policy makers and business leaders alike have the tendency to promote growth in the service sector. However, there is insufficient understanding of service management, especially in service innovation, that is believed to be the new engine of economic growth in the ICT (Information and Communication Technology) era.²

¹Giarini (2002) pointed out the service activities in manufacturing according to production process as follows: (a) before manufacturing, e.g., research, financing; (b) during manufacturing, e.g., financing, quality control, safety, and so on; (c) selling, e.g., logistics, distribution networks and so on; (d) during product and system utilization, e.g., maintenance, leasing, and so on; (e) after product and system utilization, e.g., waste management, recycling and so on.

² As forecasted by Nikolai Kondratiev (1892-1938) ICT is the fifth wave of Kondratiev Wave (K-wave) after industrial revolution (1771), the age of steam and railways (1829), the age of steel, electricity and

Large-scale surveys and government-agency sponsored research projects were launched (e.g., Community Innovation Survey--CIS, United Kingdom Department of Trade and Industry—DTI). Innovative activities, e.g., R & D input and output, in large and small service firms were clarified. However, the further step of theorizing or generalizing the findings regarding to innovation in service is still in its infancy (Flikkema, 2007). Most of the papers titled “Innovation in Services” deal with questions of typology both for service per se and innovation in services (Gallouj and Weinstein, 1997; Drejer, 2004; Forfas, 2006; Bessant and Davies 2007).

The other line of research regarding innovation in service investigated the drivers of service innovation or service development process. For example, Flikkema, et al.’s paper (2007) emphasizes change in macro environments, e.g., social and technological dimensions as drivers for innovation; Fujikawa and Kay (2006) pointed out that new services are the exploitation of change in consumer life style. Smith, Fischbacher, and Wilson (2007) reviewed five models of new service development based on the case study of health care service provider. However, the innovation process, especially, how the innovation in service is created has not been fully addressed.

Though the growth in service sector was realized as early as in the late 1960’s (Fuch, 1968), and there was a warning that frameworks as well as concepts that were developed by and for the manufacturing sector might not work the same way in service sector (Drucker, 1973), it was not until 1980’s that research on innovation in service took off. The only strong attempt to theorize innovation in services sector was conducted by Barras (1986). His “reverse product cycle” model depicts innovation process in service sector as follows:

“[T]he cycle starts with process improvements to increase the efficiency of delivery of existing services, moves on to process innovations which improve service quality, and then leads to product innovations through the generation of new types of services.”

P. 161

This shows the different route from product cycle where the different design competes among each other until a dominant design emerges. Consequently, firms will

heavy engineering(1875), the age of oil, the automobile and mass production (1908), the age of information and telecommunications (1971).

compete again on process innovation (Utterback and Albernathy, 1975). Barras used the case studies of insurance companies, accountancy companies and local governments as samples and focused on the adoption of Information and Communication Technology as a way to improve productivity and later on a new combination of offered services. However, the later research fellows criticized that this model focuses only on the technological aspects of innovation.

Innovation in service sectors appears again as an emerging topic among innovation researchers especially in Europe in the 1990's³. In addition to result of the large-scale surveys of the innovative activities in services firms, attempts are made to classify service activities as well as innovation in services (Gallouj and Weinstein, 1997; Forfas, 2006; Bessant and Davies 2007). Arguments are also made whether service deserves an autonomous model to explain innovations in service firms (Gallouj, 2000). Some introduce new types of services, e.g., experiential services, and so forth, and the innovation process in experiential service providers (Voss and Zomerdijk, 2007). Several questions regarding innovation in service were addressed, e.g., whether innovation in service should be treated as a subordinate to manufacturing sector or as a autonomous sector, how it is different from those in manufacturing, what are the determinants of innovation in services, what are the sources of innovation in service, what is the role of technology in service innovation, how we shall treat information technology, and what is the role of innovation in service in the new service development process.⁴ In short the conversations on this topic of innovation in services are diverse.

Though difference in nature of service and manufactured products are raised in much literature, there is no detailed scrutiny of this argument. To the author, this point is the most important first step for further discussion on innovation. The author argues that by asking to what extent a service firm could adopt manufacturing logic of production, one could investigate further the difference in innovation process of these two different organizational settings.

Based on Mills and Moberg's study (1982) of technological aspect in production/conversion process in service firms, this study is designed based on the

³ For example, Research Policy as cited by Drajer (2004)

⁴ The term "New Service Development process (NSD) is used as to replicate the new product development (NPD) process.

arguments that, as a company offer, a service is different in nature from a manufactured product. Consequently, it affects the production/conversion process and thus the organization settings, which influence the promotion and impediments of innovation.

Though there is emulation between service and manufacturing organization of production, e.g. adoption of quality control and standardization in service sectors, flexible specialization, mass customization, higher level of producer-customer interaction in marketing and thus production in manufacturing firms (Miles, 2005, Kusunoki, 2006), distinguished characteristics of service still remain. One is the fact that service is intangible. The other is that the interaction between service producer and client is important.

In producing service, it requires the presence and cooperation from customers as well as the role of employees as a “mini-factory.” Unlike manufactured product, technology components seem not to be the main but peripheral role in the conversion process of services. Strategically, the service firms can opt to be “restricted-service model” service providers where the standardization is the main focus of the strategy; or “full-service model” service providers where the main focus is on the customization.⁵ The investigation of the innovation process in two types of service providers through case studies will render an opportunity to generalize and contribute to establishing framework on innovation in service firms.

The remainder of this paper is structured as follows: a) literature review on innovation in general and innovation in services⁶; b) the difference in nature of service and the effects to company operations; c) research question and propositions; d) study method and sample companies, and e) initial findings and discussion.

Innovation and the dominant role of technology in innovation literature

What literature there is in innovation suggests that at the beginning of a new industry there are major product innovations. Different designs are competing until the dominant

⁵ Full-service model and restricted-service model are the terms coined by Mills and Moberg, 1982.

⁶ As mentioned above that the recent literature on innovation in services discusses mainly the typology of service and innovation in services, and though difference in nature between service and manufacturing were obvious in the argument, there is no framework that developed from that difference. Hence, the literature review in this study will be traced back to the 1980's when difference in nature of service was emphasized and conceptualized for management of service organizations.

design emerges and then competing on process improvement/innovation will begin. (Utterback, 1979) Hence, at the introduction stage of an industry, one would observe rapid technical advances and a diversity of new products. The competitive emphasis is laid on product performance to capture new markets. Thus, among five types of innovation, i.e., new areas of inputs, organization, product, process, and market, researchers have paid attention to the product and process innovation in particular (Schmookler 1966). The main issues in innovation have been issues regarding innovation trajectories (e.g., path dependency), innovation and organizational capabilities to innovate (e.g., dynamic capabilities, creative destruction), pattern of technological changes (e.g. technological discontinuities), and other technological aspect of innovations (Rosenberg, 1994; Dosi, 1982; Pavitt, 1990; Metcalfe & Gibsons, 1989; Clark and Abernathy, 1985; Tushman and Anderson, 1986; Teece, Pisano, and Shuen, 1997).

Naturally, in manufacturing, technology-based innovations support product innovation and process innovation. An artifact needs more or less technology/power source to materialize the idea. Technological advancement is the key for the possibility of an invention, hence, the commercialization of that invention, i.e., innovation.

As the main purpose of manufacturing is to serve the market with relatively standardized products at relatively lower cost than order-made ones, mass production is established in the manufacturing sector. The adoption of machinery and machinery-based process innovation would help increase productivity and thus better performance.

Though literatures in innovation to date did state this concept could be applied to service, the question is to what extent? At least, the role of technology in service firms seems to be to manage the complex information that the service producers have to deal with during the production/conversion process as well as before and after the process. Technology seems to serve as a means to better delivery services. What else then is the main contribution of technology to the service innovations? In order to answer the above-mentioned questions, investigation into the difference between a service firm and a manufacturing firm in term of offering and how it affects the organization operations of input, production process, organizing, and marketing is inevitable. The following section will touch on the difference in nature of services and the effects to the company operations in details.

Difference in nature of services and the effects to company operations

Any Service Management textbook would generally describe the following four points as distinguishing characteristics of a service: simultaneity (between the production and consumption), perishability (could not be stocked), intangibility (difficult to evaluate or assess the service outcome ex ante) and heterogeneity (varieties in requirements of the outcome).

The differences described could be explained as a series of cause-effect relationships. Firstly, the output of service organizations is intangible, thus, it cannot be stocked and must be consumed simultaneously when produced (Fisher, 1935; Clark, 1940; Sasser, 1976). Secondly, when simultaneous consumption and production prevails (Fuchs, 1968, 1969), then varieties could occur and the producers cannot completely exclude consumers from the production process and at the production time (Mills and Moberg, 1982).

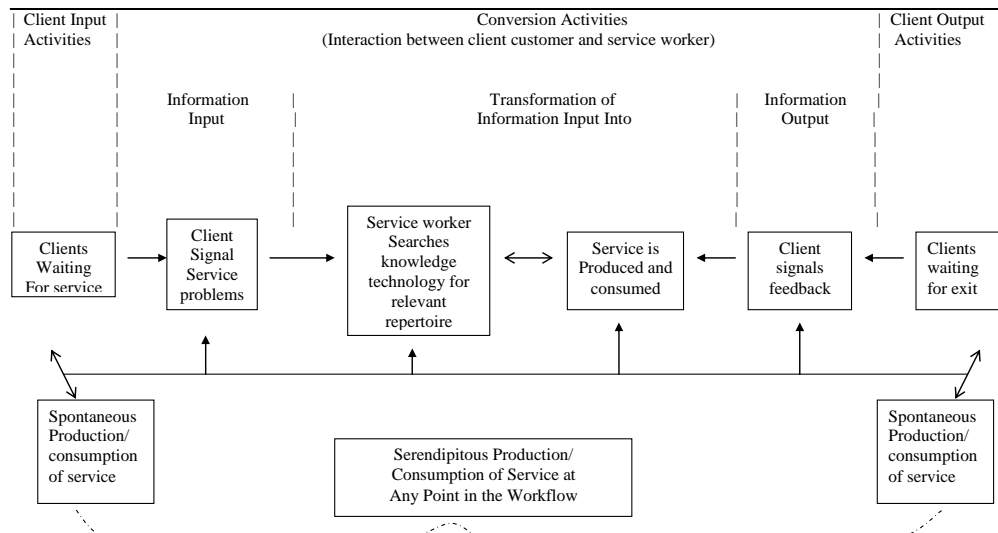
The point here is the fact that the outcome of service organizations was tangibly affects the production/conversion process of the service firms and thus the organizing of those companies. How the organization is organized affects the utilization of company's resources to create innovation and vice versa (Lam, 2005).

Production/conversion process of service firms

Shown in Fig. 1 (on the next page) are the workflow, information flow and employee-customer interaction flow. The general outcome of the production/conversion process could be described as change in the service recipients in different degree: from the stage of a small change in order to carry on the daily life like the case of postal service to the stage of change in state of health as in the case of hospital service.

Furthermore, service providers have to deal with a huge amount of information, which in many cases cannot be known ex ante. This leads to uncertainty: task uncertainty. In addition, as service recipients are a part of input (i.e., service recipients have to go through the process for a stage of change at the end of the process), the inflow of this 'input' is uncontrollable which leads to another kind of uncertainty: flow uncertainty (Mills and Moberg, 1982).

Fig. 1 A systems Model of the Service Production Process



Source: Mills & Moberg, 1982 p. 471

As service recipients must be present at the production/conversion process, interaction between service providers and recipients are crucial to how the recipients would assess the outcome of the services in later stages of consumption.

Furthermore, as Fig. 1 illustrates, during the production/conversion process of service, the producer/provider has to deal with various kinds of information. For example, there is the case of an outpatient who goes to a hospital's emergency room⁷. The patient's personal information can include recent diet and activities, record of allergies, observed symptoms, and so forth. Furthermore, the patient families, friends, company, and so forth might also make the request for services. Hence, the basic technologies adopted in production/conversion process are likely to be those of information technologies.

Consequently, this affects the company at least in two aspects. One is the organizing aspect or human resource management to be exact. The other is the strategy. These two aspects are interrelated. That is to say that when employee-customer interaction is the critical point in service production process, i.e., employee roles in operational level is not just the operation of machine but include the role of the marketing man as well (e.g., he/she is selling the company offers, doing public relations tasks, and

⁷ See a service blueprint of an outpatient clinic in Smith, Fischbacher and Wilson, 2007

so forth). Hence, human resource management of service firms is likely to be different from those of manufacturing, relative to operational level.

In order to cope with uncertainties occurring because service recipients must be present at the production/conversion process, strategically, service firms could opt to either follow the manufacturing logic of production by introducing automation and standardization⁸, a restricted service model, or provide a full service model by emphasizing the response to the various requests of service patrons. This further affects the human resource management, for example, how to divide the task of operational operation which then reflects on how to recruit appropriate human resource to serve the company strategy. For example, Mills and Morris (1980, 1986) proposed to group service organization into three types according to the tasks: ‘maintenance interactive’ as seen in banks and retail stores; ‘task interactive’ as seen in legal and engineering companies; and ‘personal interactive’ as seen in health care providers and education institutions.⁹

When the firm set the strategy namely to adopt restricted or full service model, and organizing its operation units accordingly, the organizational setting could then affect the promotion or impediment of innovation. Damanpour (1991) found in his empirical paper that

...in a manufacturing context, emphasis on ‘standardization of work process’ (represented by formalization) facilitates innovation, where as ‘direct supervision’ (represented by vertical differentiation) inhibits innovation. In the service context, the effects are in the opposite direction.

⁸ The idea of introducing standardization is originated in the concept of ‘seal-off’ proposed by Thompson (1976) who proposed to seal-off the environment from the firm operations in order to reduce risks such as workflow uncertainty and task uncertainty. See more of this discussion in Mills and Moberg (1982).

⁹ Mill and Moberg (1982) used the following seven dimensions as criteria to group service firms in to three organization types. The seven dimensions are:

- a. Information on the a. information quantity, b. information quality, and c. confidentiality.
- b. Decision on the a. employee decisions, b. importance, and c. feedback (client to employee)
- c. Time on the a. interface duration, b. total time in direct contact
- d. Problem Awareness on the a. client knowledge about problem, b. client ability to evaluate services, and c. client expectations vs. service capabilities
- e. Transferability on substitutability of employee (individual specific, tacit knowledge, skill capability)
- f. Power on the a. perceived power of employee with respect to client, b. employee status to client, c. employee authority with client
- g. Attachment on the a. employee identification with client, and conflict potential

These seven dimensions could be grouped into two groups—employee capability and service delivering process. That is dimension b., d., f. and g. belong to Group 1, employee capability. Dimension a., c., belong to Group 2, service delivery process. Dimension e., concern with the tacit knowledge embodied in the employees thus transferability/substitutability of employee are included in the dimensions.

Thus, it could be induced from the literature that firm in the manufacturing context (in this case restricted service model) have different determinant of innovation from the firm in the service context (in this case full service model).

Research questions

The above-mentioned arguments lead to the research question: How the differences in strategy, thus, organizing of service organization affect the innovation activities in those firms?

In short, how innovation activities in full-service model firms are different from innovation activities in restricted-service firms. Because the strategy will affect the structure of organization and thus the setting for innovation to occur, it could lead to further propositions in the following areas:-

The innovation process in innovation firms

While technology is the key contribution to the product innovation as well as process innovation, especially in radical manner of innovation, employees and customers seems to be the key contribution in the case of service innovation.¹⁰ Literature in innovation has proposed the technology-push and demand-pull sensibility (for example, Clark, 1985). How do these assertion work in the service firm setting? Does the demand-pull strategy prevail in the service sector? How do the service recipients contribute to the service innovation? What is the role of technology in innovation in services firms? What kind of technology is contributing to the innovation process in these firms?

Study Method and Samples

As innovation in services is still in its infancy stage and large scale standard statistics are not available, the most appropriate approach at hand is case study. (Yin, 1983) As the study will compare the innovation activities in companies that follow full-service and restricted-service models, the sample companies will contain service firms that represent the philosophy of each model. Companies in Japan are chosen because

¹⁰ Leonardo Da Vinci and the concept of airplane might be the best illustration of how technologies contribute to an invention and the commercialization of the invention. See more in Fagerberg, Mowery and Nelson (2005) p. 5.

Japan is recognized as a major player in manufacturing and service is regarded as a subordinate sector, yet, there are a number of Japanese service firms who are competitive internationally. Investigation into firms that could stand out against the mainstream ones might contribute to a better understanding on how the innovation in service firm occurs.

The criteria to choose sample service firms are divided into quantitative and qualitative criteria. In quantitative term, the firms must have been top performers in their categories. In qualitative term, the firms must have been regarded as innovative in both technological and non-technological ways—the ones who create a new industry or change the patterns of business that have been utilized previously. Furthermore, as innovative firms normally attracted the attention of the public, availabilities of secondary data to support the analysis of the case could be expected.

The potential service firms in this study and their performances are summarized into Table 1.

Table 1. Japanese Innovative Firms Used in the Study

Company Name	Main business	2006-2007 Sales (billion Yen)	Number of Employees	Number of Overseas Operation
7-Eleven Japan*	Retailing (General)	2,530.0	4,963	16
Yamato Transportation	Transportation	1,200.0	155,250	9
Askul	Retailing (Specialized)	176.0	382	0
Book-Off	Retailing (Specialized)	393.0	685	8
Benesse	Education	13.6	2,885	3

Source: compiled by author from each company official URL

Note: * a Fortune 500 company (2007 list)

In the initial stage of study five companies are selected as samples. The first four companies namely 7-Eleven Japan, Yamato Transportation, Askul and Book-Off represent the restricted service model where standardization is introduced and increase in efficiency is the focus of the operation. The fifth firm, Benesse, represents the full-service model where service combination to match individual's need is offered. Each company's brief history and performance to date are as follows:-

7-Eleven Japan

7-Eleven Japan is a subsidiary of a large-scale foods supermarket Itoiyokado. During the 1970's, no one believed that a small-scale convenience store would be able to survive. However, Toshifumi Suzuki had a different perspective. Productivity would be the key success factor for small-scale retailers. On his business trip to America, he found that there might be a possibility to “import” the convenience store template into the Japanese market. He discovered later that the template did not work well in response to the Japanese demand. The template could not match the distinctive offerings from the general miscellaneous stores around the train station areas (shotengai). Hence, an entirely new template was created and replicated domestically and in its overseas operations.

Not only the introduction of new form of retailing to the country, 7-Eleven Japan also introduces numerous services in its outlets. The convenience store is the place that one can buy different foods, run an errand, buy cook books and magazines, pay for utilities, do office automation tasks (e.g., sending facsimile or photocopying), printing name cards and “nenkajou” (New Year cards), rent a DVD, book a concert ticket, charge one's cell phone, send a courier, and so forth. All of these are well diffused and have become the standard offer for all “latecomer” convenience stores.

Yamato Transportation

This company was founded as a transportation company by Koshin Kogura in 1919 but remade into a customer-to-customer, door-to-door courier in 1975 by his eldest son, the late Masao Kogura.¹¹ While only anecdotal, it is widely accepted that it was an against-all-odds decision at the time when the Japan Post was the only provider of this kind of service.

To compete with a large-scale government run courier was not an easy job. To deal with each individual request nationwide means the company has to process and

¹¹ A courier is a person or company employed to deliver messages, packages and mail. Couriers are distinguished from ordinary mail services by features such as speed, security, tracking, signature, specialization and individualization of services, and committed delivery times, which are optional for most everyday mail services. As a premium service, couriers are usually more expensive than usual mail services, and their use is typically restricted to packages where one or more of these features are considered important enough to warrant the cost. Definition available at <http://en.wikipedia.org/wiki/Courier> downloaded 21 December 2007.

manage a tremendous amount of information, e.g., different sender and receiver address, different sizes of parcels, and different kind of contents of the parcel. Still the company managed to create a template model of operation to utilize economies of scale and grow. The new services, e.g., golf courier, ski courier, book courier, and freezer courier have been developed to respond to the consumer life style in leisure and entertainment. The number of parcels handled by the company increased three times during the ten-year period of 1981-1989.¹² By introducing and increasing sales of the ‘takkyubin’: door-to-door courier service, Yamato Transportation invited more than thirty rivals into this service industry in the 1980’s. This is the evidence that the private courier service is a real innovation, one that gets well diffused.

Askul

Askul had been a business unit of Plus Co., Ltd., operating a stationery catalogue selling transactions until 1990 when the spin-off took place. Plus Co., Ltd. is a wholesaler of stationery focusing on offices stationery segments. In order to reap the benefit of the unfulfilled needs of office employees who need speedy delivery of the office stationery, a catalogue selling business unit was founded. The better the business unit goes the more resistance from the mother company’s distribution channels. Thus, the spin-off is the solution.

Regarding the operation, one can imagine that a catalogue-selling business that would offer speedy delivery as a competitive advantage must deal with a huge amount of complex information. The company was named “Askul” which can be pronounced “asukuru.” It literally means, “coming tomorrow” in Japanese. This is to imply that if the order is taken today, the customer will get the items ordered by tomorrow. Adopting sophisticated information processing/analyzing technology and software is one of its necessary tools. Ambitious and with intensive quality control and to respond quickly to

¹² Hiroshi Shimizu (2001) “Business Case: Yamato Transportation—Competition and Business Model Innovation” *Hitotsubashi Business Review* Vol. 49 No. 1 Summer

change in society/customer needs, the company aims to be the biggest player in e-commerce retailing.¹³

BOOKOFF

When thinking of second-hand bookstore, one will imagine an old and narrow space filled with turned-yellow books piled in an untidy manner. On top of that, the used bookstores are usually situated in some specific areas of big cities that are well known as used-books areas. Book-off has offered the new image of a second-hand bookstore as a nicely-decorated, clean book convenience store with friendly staff and a variety of books for customer' choices in nearby locations.¹⁴ Unlike the old-style used bookstores where the customers have to go through piles of books to search for the book they are looking for, customers of Book-Off can search for the item online. In short, it is a convenience store of used books. Established in 1990, the company managed to become the largest used bookstore in the country ten years later. In 2006, the company market share topped 60 percent. The products offered are extended to other related products e.g., rental videos as well.¹⁵

In response to BOOKOFF penetrating into the used book markets, the existing used book stores are cooperating in setting up the Internet services so that customers can search for the availability and location of the books. This is solid evidence that BOOKOFF's template of convenience store style of a used-bookstore has been diffused into other firms in the industry.

Benesse

The former name of the company was Fukutake Bookstore. It was a bookstore that had focused on textbooks and maps for secondary and high school students in Okayama Prefecture in West Japan since 1955. In order to help relieve the anxiety of

¹³Seiichiro Yonekura (2006) "Management Forum: Interview of Shoichiro Iwata" *Hitotsubashi Business Review* Vol. 54 No. 2 Autumn pp.190-199, ----- (2001), "Management Forum: Interview of Shoichiro Iwata" *Hitotsubashi Business Review* Vol. 49 No. 1 summer pp. 152-164, Yoko Ishikura (2001) Business Case: Askul—Change in business environment and the creation of new channel of distribution *Hitotsubashi Business Review* Vol. 49 No. 3 pp. 122-143

¹⁴ Yoshinori Fujikawa (2006) Entrepreneurial approach to Service Innovations; Addressing Changing Lifestyles in Japan *Hitotsubashi Business Review* Vol. 54 No. 2 pp. 6-19.

¹⁵ Regarding rental video, the company is the franchisee of Tsutaya, the biggest rental video company.

these students in the so-called “entrance exam war,” supporting tuition business was created in 1960. It was later developed into the “whole life-cycle support services” in order to respond to the change in social environment, e.g., longer life expectancy and the needs to get involved in life-time education. The company offers service to customers ranging from children to senior citizen e.g., “Children Challenge”, “Home Making”, elderly care, and so forth. One of the main innovations created by this company is the utilization of the “unused resources” in Japanese society—the married women who are highly educated and do not work after their marriage. The company helped them to become ‘aka pen sensei--writing editor/mentors’ for the students.¹⁶ The company is named “Benesse.” This implies “the good life” and shows the company intention to serve a person in his/her lifetime.¹⁷

Initial observation and discussion

The template and the creating of the template

From the secondary data reviews, it is obvious that each company has been successful in creating a template/business model and diffusing the template to pursue growth. However, how the first template is created, who is the initiator of the creative idea, how the first idea turns into a concrete and possible model for commercialization, what are the pressures of the business environment as well as the concerned parties and so forth, are still in question.

In most cases, the new templates are created to respond to changes in customer demands or to discover hidden demand, e.g., entrance exam war, needs to run small errand in later hours as a result of the increase one-person households, increasing life expectancy, office employee desire to have speedy delivery of stationery, and so forth.

Regarding the source of the creative ideas, customer voices play crucial roles in the Askul case. In other cases; the source of the idea seems to be endogenous. Roles of other concerned parties in adjusting the new concept are seen in Askul case as well. This

¹⁶ ‘Aka pen’ means red pen. The word is used to literally mean to check and revise one’s writing.

¹⁷ Yaichi Aoshima (2001) “Business Case: Benesse Corporation—the Pursue of Corporate Philosophy and Business Model” *Hitotsubshi Business Review* Vol. 49 No. 2 Autumn pp. 136-159.

is to say that when the company began to offer direct selling via catalogue there was a resistance from middlemen because that meant the company was competing with its own nominated channel. Toshifumi Suzuki of 7-Eleven had to withstand the criticism from colleagues and friends in the company and in the industrial associations at the beginning of the business unit establishment. In addition, in most literature, only the final outcome of the creative ideas and the role of leadership/management are emphasized. Operational employees are not in the scene.

As they are the ones who represent the companies when the productions/conversions of service are carried forth, they are the ones with the fresh information from the service recipients. Furthermore, if they cannot replicate the template well enough, or there is uncertainty in the situation that forces them to create an ad-hoc template, or as Mills and Moberg (1982) put it “a serendipitous production or consumption of service” this could lead to innovation in services. Hence, there are likely some adjustments among these concerned parties as main or supporting sources of creativity. In short, a dynamic “creative response” is expected¹⁸.

Regarding the response to resistance from concerned parties, spin-offs were observed in the cases of Askul and Itoyokado. Table 2 summarizes organizational changes and how the present businesses are developed from existing organizations.

Table 2. Sample Firms and the Spin-off

Company Name	Year Established	Spin-off Business	Parent Firm	Year Established of Parent Firm	Notes
7-Eleven Japan		yes	Itoyokado		
Yamato Transportation	1977	no		1919	Diversified from transportation business
Askul	1997	yes	Plus		Business unit under Plus since 1992
BOOKOFF	1990	no			
Benesse	1962	no		1955	Diversified from stationery retailing business

Source: Hitotsubashi Business Review, 2001; 2006

¹⁸ ‘Creative response’ is the term coined by Schumpeter, 1934.

Roles of technology in innovation activities

Almost all the cases are heavily utilizing information technology. Some take information technology as a tool to pursue productivities (7-Eleven, Askul), and some use it as a medium to channel their services (Benesse, BOOKOFF, Yamato). Investigation is needed to check whether there is any other kind of technology that is adopted to support the innovation activities—product/service development, process development as well as other aspect of innovation.

Potential Implication

Theoretically, there are two extreme cases of service firms operations: full-service model and restricted-service model. However, in reality, service firms fall somewhere between the two extremes. The sample service firms are selected to represent a higher degree of one extreme compared to the other. Firms that fall in between the two ends of the spectrum could apply the findings according to ratio of similarity of the two models.

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