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Exploring Value Propositions and Service Innovation:

A Service-Dominant Logic Study

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ABSTRACT

This paper presents an eight-firm study, conducted from the service-dominant logic perspective, which makes a contribution regarding knowledge of the anatomy of value propositions and service innovation. The paper suggests that value propositions are configurations of several different practices and resources. The paper finds that 10 common practices, organized in three main aggregates, constitute and fulfill value propositions: i.e. provision practices, representational practices, and management and organizational practices. Moreover, the paper suggests that service innovation can be equated with the creation of new value propositions by means of developing existing or creating new practices and/or resources, or by means of integrating practices and resources in new ways. It identifies four types of service innovation (adaptation, resource-based innovation, practice-based innovation, and combinative innovation) and three types of service innovation processes (practice-based, resource-based, and combinative). The key managerial insight provided by the paper is that service innovation must be conducted and value propositions must be evaluated from the perspective of the customers' value creation, the service that the customer experiences. Successful service innovation is not only contingent on having the right resources, established methods and practices for integrating these resources into attractive value propositions are also needed.

Keywords: Resource integration, Service-dominant logic, Service innovation, Value proposition.

INTRODUCTION

Marketing inherited a goods-dominant logic (G-D logic) from economics, which emphasizes the exchange of manufactured output, embedded value, and tangible resources. This stance has been challenged by service-dominant logic (S-D logic) research (Vargo and Lusch 2004a, 2008a). In contrast to G-D logic, S-D logic emphasizes that value is (a) co-created by customers, firms, and other actors; (b) assessed by actors in context; and (c) the outcome of the actors' activities and interactions during which resources are integrated and used (Edvardsson et al. 2011; Gummerus 2013; Vargo and Lusch 2004a, 2008a).

According to S-D logic, a key role for firms lies in offering value propositions which, after being approved by customers, enable the mutual co-creation of value (Ballantyne et al. 2011; Vargo and Lusch 2008a). However, the value proposition concept, although key to S-D logic, remains poorly defined. Ballantyne et al. (2011, p. 203) concluded that; "Despite widespread use of the term value proposition, there is surprisingly little published research on this topic." Existing research into value propositions is largely normative and underpinned by few systematic studies of the anatomy of value propositions (which parts they consist of). Consequently, argue Frow and Payne (2011, p. 236); "There is a need for both qualitative and quantitative data to support the normative perspectives on value propositions." The lack of research into value propositions implies that service innovation, which in S-D logic is the firm's creation of new value propositions or the development of existing ones (Michel et al. 2008; Vargo and Lusch 2008a), remains poorly researched and thus understood from an S-D logic perspective (Rubalcaba et al. 2012). Michel et al. (2008) call for micro level research in order to better understand how providers conduct service innovation by means of combining resources into value propositions. Thus, the value proposition concept, the anatomy of value propositions and how these are developed, remains under researched. Consequently, our research questions are:

- What is the anatomy of value propositions?

- How does service innovation take place by firms creating new or developing existing value propositions?

These research questions will be answered by drawing on a study of value propositions and their innovation at eight firms. Our research contribution is twofold: First, we provide a more precise understanding of the anatomy of value propositions. Second, we link value propositions and service innovation by showing how existing value propositions are developed and new ones created with implications for research into both the process and the outcome of service innovation. The key managerial implication of the paper is that service innovation must be conducted and value propositions must be evaluated from the perspective of the customers' value creation (the service that the customer receive), and not solely from the perspective of the value created for the firm. Successful service innovation is not only contingent on having the right resources, established methods and practices of integrating these resources into attractive value propositions are also needed. In fact, we suggest that the practices themselves can make the value proposition attractive.

The paper is structured as follows. First, we review the literature on value propositions and service innovation. In the empirical section, we introduce the methodology and present the findings. Finally, we discuss the implications of the results in relation to previous research into value propositions and service innovation, suggesting managerial implications and avenues for further research.

THEORETICAL BACKGROUND

The Value Proposition Concept

The value proposition is a notion frequently used by practitioners (Anderson et al. 2006; O'Dell and Grayson 1999; Payne et al. 2005; Terho et al. 2012). Frow and Payne

(2008) reported that, of the 200 companies they had studied, 65% used the concept. The concept has been used in G-D and S-D logic literature, and it will therefore be discussed separately from both G-D and S-D logic perspectives.

G-D logic perspective on value propositions

The concept of the value proposition originates from the work of McKinsey & Co. consultants Lanning and Michaels (1988). McKinsey (2000, p. 53) defined the value proposition, on the basis of the paper by Lanning and Michaels (1988), as; "A clear, simple statement of the benefits, both tangible and intangible, that the company will provide, along with the approximate price it will charge each customer". Lanning and Michaels' approach to value propositions was presented as a firm's internal "value delivering system" involving three steps: choosing, providing, and communicating the value. Many definitions are based on Lanning and Michaels (Lindic and Marques da Silva 2011), but the concept remains ambiguous. Anderson et al. (2006, p. 91) point out that; "There is no agreement as to what constitutes a customer value proposition." Three commonalities have been identified regarding the G-D logic understanding of value propositions (Ballantyne et al. 2011): Value propositions are offerings to the market; their inherent value is delivered to the customer by the firm; they are constructed without any direct customer involvement. Nevertheless, they may sometimes be co-created within a network of providers, with Bititci et al. (2004, p. 259) proposing that value propositions are determined "by a meta-level management process of the entire extended enterprise to achieve strategic and operational synergy."

Most of the G-D logic literature argues that value propositions should resonate with customer needs, recommending traditional means such as market research to accomplish this. For instance, the influential paper by Anderson et al. (2006, p. 95) distinguishes between three types of heuristic value propositions: "All benefits," listing "all benefits a customer receives

from a market offering," "Favorable points of difference," focusing on "all favorable points of difference a market offering has relative to the next best alternative," and "Resonating Focus" meaning that the focus should be on "the one or two points of difference . . . whose improvement will deliver the greatest value to the customer for the foreseeable future." The emphasis, in common with other G-D logic treatments of value propositions, is on how a firm can display, by positioning itself in the marketplace, the attractiveness of a current offering, since value propositions are treated as "quantifiable evidence" of value (Terho et al. 2012) or as "points of difference" (Lindic and Marques da Silva 2011). Thus, the anatomy of the value proposition is not the main focus of interest in this research stream. Furthermore, as pointed out by early service scholars, G-D logic does not address the inherent participation of the customer in creating value that service marketing has emphasized (Bitner et al. 1997; Ouschan et al. 2006; Solomon et al. 1985) because of the focus on the exchange of manufactured goods. This deficiency is addressed, at least partially, in the S-D logic value proposition literature to be discussed next.

S-D logic perspective on value propositions

The S-D logic holds that firms offer value propositions, that value is co-created during interactions, and that value is subjectively determined by the customer in context, e.g., when the customer uses products or services (Edvardsson et al. 2011; Vargo and Lusch 2008a). Thus, value cannot be delivered to the customer in accordance with a value proposition, as the G-D logic-informed value proposition literature maintains, because value depends on both the interaction and the customer context.

Problematically, the original S-D logic work has left the term value proposition undetermined (Vargo and Lusch 2004a, 2008a, 2008b). However, Grönroos and Voima (2013, p. 145) argue that; "Although the concept is never explicitly defined in S-D logic

literature, the value proposition must be considered a promise that customers can extract some value from an offering." Similarly, Lusch et al. (2007, p. 13) treat the value proposition as "a promise the seller makes that value-in-exchange will be linked to value-in-use." Other authors (Ballantyne and Varey 2006; Frow and Payne 2008; Kowalkowski 2011) share this view, with Calonius (2006) going as far as to equate promises with value propositions. However, the promise concept may not be an adequate metaphor for value propositions in S-D logic since a promise refers to an assurance of future consequences (Collins English Dictionary 1998) and is not, thus, unlike the G-D logic definition of the value proposition as a promised benefit.

In our literature review, we observed that two major aspects distinguish the value proposition concept of S-D logic from that of G-D logic: i.e. the focus on co-creation and the importance of resource integration.

Co-creation. According to S-D logic, value propositions support customers' value creation. Value creation refers to the customer being better off when using a product or service, i.e., navigating to the right destination using GPS or the joy and adventure associated with whitewater river rafting. To realize the value proposition, a firm must co-create value with its customers by means of direct interaction (Vargo and Lusch 2004a, 2008a; Grönroos and Voima 2013), making the customer better off (Grönroos 2008); i.e. instructing the customer in how to operate his/her GPS or in how to use a paddle while whitewater river rafting. Via direct interaction, firms can explain the value proposition, how it should be used, and how it can be used in tandem with other value propositions, thus trying to align firm and customer processes.

One stream of research (Ballantyne and Varey 2006; Ballantyne et al. 2011; Frow and Payne 2008, 2011) has argued that actors (firms, customers, and other stakeholders) enter into negotiations in order to communicate their own sense of value to their counterpart(s). Based on this communication, firms craft reciprocal value propositions (Ballantyne et al. 2011), with

one firm perhaps having multiple value propositions with different stakeholders (Ballantyne and Varey 2006; Ballantyne et al. 2011). Thus, it is suggested that firms and customers influence each other while crafting value propositions, while the value is realized later on during interactions. Nevertheless, whether value propositions are, in fact, co-created or not remains unclear.

Resource integration. The other aspect differentiating S-D logic, and its understanding of value propositions, from G-D logic is resource integration. S-D logic differentiates between operant resources, that is, knowledge and skills that operate on and integrate operand resources, which are tangible (Vargo and Lusch 2008a). Karpen et al. (2012, p. 29) emphasize that the operant resources "enable firms to make value propositions". Customers and firms collaboratively integrate resources while directly interacting in order to co-create value (see, for instance, Aarikka-Stenroos and Jaakkola 2011; Grönroos and Voima 2013), while customers integrate resources in the form of products and services in their usage processes in order to create value for themselves or others in use (Vargo and Lusch, 2008a). Resources are also integrated in the configurations that firms offer the market in the form of value propositions (Vargo and Lusch 2008a; Grönroos 2009). However, integrating resources into value propositions may also take place between multiple actors as well as in networks of actors (Ballantyne et al. 2011).

In sum, S-D logic treats value propositions as value creation promises created either by the firm independently or together with customers and other actors through resource integration based on knowledge and competencies. Resources make up value propositions, but the more precise anatomy of value propositions remains unclear. We continue discussing existing research into service innovation and our understanding of service innovation as either the creation of new value propositions or the development of existing ones.

Service Innovation

How firms create new value propositions and develop existing ones has received scant attention (Ballantyne et al. 2011; Michel et al. 2008) in previous service innovation research, which has predominantly focused either on outcomes and typologies of service innovation or on the service innovation process itself (Michel et al. 2008). In this section, we relate existing research to the S-D logic perspective on service innovation.

Outcomes and types of service innovation

To date, most studies of service innovation have been based on a G-D logic perspective (Michel et al. 2008; Ordanini and Parasuraman 2011), relying on Schumpeter's theory of economic growth. Schumpeter distinguished between different types of innovation, e.g. product, process, and organizational innovation (Toivonen and Tuominen 2009). Making a distinction between product and process innovation, in a service context, has been criticized by several researchers due to the difficulties of separating the service delivery and the production process (e.g., Droege et al. 2009; Sundbo 1997; Toivonen and Tuominen 2009).

The S-D logic perspective relates service innovation to the creation and development of value propositions. Thus, this perspective entails a shift in focus away from product, process, and organizational innovation toward the foundational elements comprising these innovation types, i.e. resources. As Rubalcaba et al. state (2012, p. 708); "a service innovation provides new resources, available to customers in value constellations" to be used by customers to improve their own creation of value (Michel et al. 2008). Vargo and Lusch (2008a, p. 5) argue that the value of an innovation is "not defined by what firms produce as output but how firms can better serve." Thus, from the S-D logic perspective, the definition of innovation work must change from focusing on "the production of innovative 'products' to resource integration and enhanced value propositions" (Michel et al. 2008, p. 65) that support

customers' value creation by making them better off (Grönroos and Voima 2013). According to S-D logic, service is "sometimes provided directly [through service*s*], and sometimes it is provided indirectly, that is, through the provision of tangible goods; goods are distribution mechanisms for service provision" (Vargo and Lusch 2004b, p. 326). Thus, S-D logic articulates a perspective on innovation that is applicable to both the service sector and to the manufacturing sector. Indeed, S-D logic transcends the dichotomy between goods and services.

The process of service innovation

Another major topic in the service innovation literature is how services are innovated, that is, the process of developing new services (Menor et al. 2002). Two main research streams can be identified: The first conceptualizes the service innovation process as structured, systematic, and sequential, while the second views the service innovation process as less formalized and emergent. The structured view stems from new product development (NPD) and is grounded in G-D logic (Michel et al. 2008). This stream is based on the well-known sequential stage gate model introduced by the management consultancy firm Booz, Allen and Hamilton in the 1960s. According to this model, service innovation processes are generally described as rational and sequential, distinguishing between phases such as idea generation, idea assessment, design, testing and validation, and market launch (see, for example, Bowers 1989; de Brentani, 2001; Papastathopoulou and Hultink 2012; Scheuing and Johnson 1989). In the structured view of the service innovation process, "service is treated as a kind of good (subset of product)" (Vargo and Lusch 2006, p. 47) with embedded value providing both the customers and stakeholders, e.g. frontline employees, with little or no part to play in value creation and service innovation. S-D logic research, on the other hand, has concluded that the contributions to service innovation made by both customers (Blazevic and

Lievens 2008; Chen et al. 2011; Hoyer et al. 2010) and frontline employees (Cadwaller et al. 2010; Ordanini and Parasuraman 2011) are essential.

The alternative view of the service innovation process is rooted in grounded studies using practice-based interpretations (Fuglsang and Sørensen 2010), holding that service innovation processes are characterized by a low level of formalization and that they are emergent (Toivonen and Tuominen 2009; Zomerdijk and Voss 2011), unsystematic (Sundbo 1997), conducted *ad hoc* as a solution to a particular problem posed by a given client (Gallouj and Weinstein 1997), and integrated with day-to-day operations (Kelly and Storey 2000). Related to this understanding of service innovation is *bricolage*, which emphasizes that the development of a new practice is a "do-it-yourself" problem-solving activity that creates structure using the resources at hand (Fuglsang and Sørensen 2010, p. 583). Here, a practice is understood as the routine activities and sensemaking frameworks that people carry out and use in a particular context; practices are enacted by people in order to act and to make sense of other people's actions (Reckwitz 2002; Schatzki 1996). It has been suggested that resources are "building blocks" of the social (e.g., knowledge of nature, rivers, and boats) that practices integrate into service (e.g., whitewater river rafting) (Ballantyne et al. 2011; Echeverri and Skålén 2011; Grönroos 2011). Korkman et al. (2010, p. 236) state that "practices are resource integrators."

The structured model provides an aggregated image of the service innovation process and managerial implications but says little about how service innovation takes place at the micro level. On the other hand, the practice-based model provides a descriptive micro account of how service innovation occurs, but offers less in terms of managerial guidance. However, perceiving service innovation as the creation of new value propositions, or the development of existing ones, enables the integration of these perspectives. On the one hand, the value proposition concept presupposes taking into account customers' value creation, as well as

how firms can support this, entailing a normative/managerial focus. On the other hand, focusing on how value propositions are developed and created entails a descriptive micro focus.

METHOD

Data Collection

Our analysis is based on qualitative research focusing on value propositions and service innovation at eight companies. The theoretical sampling (Glaser and Strauss 1967) of the participating companies aimed to strike a balance between business-to-business and business-to-consumer firms (the sample includes four of each) and access. Not all the firms that we initially contacted were prepared to grant us the level of unfettered access that our qualitative research design required. The investigated companies include; (1) a multinational telecom equipment and service provider (TESP), (2) a spa hotel, (3) the adult habilitation clinic of a hospital[1], (4) an IT consultancy agency, (5) a bank, (6) a consultancy firm for paper and pulp production (PPC), (7) a paper and pulp manufacturer (PPM), and (8) an advertising agency. The companies vary in size between 35 employees and around 30,000 (see Table 1 for the exact figures).

After the initial screening and discussions with our contact person at each firm, we decided to focus data collection on one or two innovation projects at each firm. We collected data by interviewing and observing the members of diverse projects. Focusing on particular projects enabled us to generate thick descriptions of the projects' value propositions and the service innovation, and to collect naturally occurring data using the language and concepts of our informants. Since previous S-D logic innovation research has shown that personnel external to the R&D department, e.g. managers and frontline employees, contribute to firms' creation of value propositions (Cadwaller et al. 2010; Melton and Hartline 2010; Ordanini and

Parasuraman 2011), we focused on innovation projects comprised of such personnel. Furthermore, customers are sometimes, but not always, involved in service innovation projects (Blazevic and Lievens 2008; Chen et al. 2011; Hoyer et al. 2010). In two cases (PPC and the ad agency), we collected data directly from the customers. Three of the other cases (TESP, the IT consultancy agency, and the bank) also involved customers, but we were not granted access in order to interview them.

The theoretical sampling conducted within each project—choosing whom to interview, what meetings to observe, and what documents to collect—was guided by the objective of gaining deeper knowledge of each project and, in particular, of service innovation and value propositions. Our contact person at each firm first approached informants who could provide relevant information on the service innovation (Eisenhardt 1989). If they agreed to contribute to our research, we then contacted them to inform them about the nature of the project and to make an appointment for either an interview or agreed on how to conduct the observation. While collecting data, we met new informants whom we approached directly for either an interview or observation.

We conducted several rounds of interviews for each case, in accordance with an interview guide comprising questions focusing on what the value propositions consisted of and the service innovation activities conducted. The interview guide was based on our research problem and identified gaps in the literature. The guide varied somewhat between contexts due to the differing nature of the projects. Appendix I includes the interview guide used for the first round of interviews at the adult habilitation clinic. The questions asked in the first round were quite general, aimed at creating a general understanding of the project, the organization, the role of the interviewee in the project, the role of the customer, etc. As recommended by the qualitative method literature (e.g., Miles and Huberman 2004), probing was used during later rounds to gain more detailed descriptions of the themes that emerged

during the first round (e.g., "Did you contribute toward constructing the business model for service X?" "Describe the nature of the collaboration with Y [customer] please." "When you recruited for project X, what competencies did you have in mind?"). The interviews lasted between 40 minutes and 2 hours. All the interviews were transcribed verbatim as soon as possible after being conducted. The interviews were conducted in either Swedish or Finnish with natives from Sweden and Finland. A professional language editor translated quotes from these interviews into English in conjunction with the paper being written. The rest of the interviews were conducted in English. These respondents were either native English speakers or had mastered English at a level of professional fluency.

We observed meetings within the projects we were studying, e.g. steering group meetings, reference group meetings, brainstorming sessions, training sessions, and planning meetings. We also observed a few meetings involving customers, e.g. sales meetings, project group meetings, and presentations of pilots. Whenever possible, the observations were audio recorded and transcribed verbatim. If not, field notes were taken during the observation and expanded upon as soon as possible once the observations had been conducted. The observations lasted between 1 and 8 hours. In addition to interviews and observations, a broad range of documents relevant to the studied projects was also collected and analyzed, including meeting agendas and minutes, PowerPoint presentations, project plans and reports, service development schemes, financial reports, and customer survey analyses. Data collection ended when the development project ended, or when empirical saturation occurred—e.g., when no new themes were emerging and when no new data associated with the existing themes was being generated. The amount of data needed to reach saturation varied between firms due to the complexity of the project(s) and the number of projects being studied at the firms. Table 1 provides the data sources in the different cases.

Data Analysis

Data analysis revealed that firms draw on certain practices in order to integrate resources into value propositions. In order to answer the research question regarding what constitutes the anatomy of a value proposition, data analysis focused on identifying the practices actors use to integrate resources into value propositions. Further, in order to answer the research question regarding how service innovation takes place, data analysis focused on how the development of existing practices or the creation of new ones integrates resources and leads to service innovation.

We followed the analysis procedure suggested by Spiggle (1994). Inspired by grounded theory (Glaser and Strauss 1967; Strauss and Corbin 1990), Spiggle recommends sorting data by means of the following seven operations. The first operation is *categorization* (classifying and labeling data), during which we identified the practices that make up the value propositions and are acted upon when conducting service innovation. Examples include meetings, best practices, standardized processes, scripts, and dialoguing. During the second operation, *abstraction* (generating higher-order constructs), we grouped the practices into three aggregates, resulting in the following structure: (1) representational practices, including interaction practices, modeling practices, and naming and labeling practices; (2) provision practices, including operating practices, problem-finding practices, and problem-solving practices, and (3) management and organizational practices, including organizing practices, staffing and team-building practices, networking practices, and knowledge-sharing practices. During abstraction, we also identified four types of service innovation by means of analyzing the firm's activity as regards developing existing or creating new practices and resources: adaptation, resource-based innovation, practice-based innovation, and combinative

innovation. The third and fourth operations, *comparison* (exploring differences and similarities within the data) and *dimensionalization* (identifying the properties of categories and constructs), enhanced the distinctiveness of the categorization and abstraction. Specifically, we focused on ensuring that the pairing was close between empirical instances and the practices and types of service innovation as well as on systemizing the mapping of the properties of the 10 practices and the 4 types of service innovation. Fifth, we conducted *integration* (combining categories and constructs into frameworks) by integrating our findings with models, at times informed by previous research, in order to summarize our results and contributions. Sixth, we conducted *refutation* (subjecting emerging inferences to empirical scrutiny) by using the original 16 categories of practices identified by the first author and based on three cases (TESP, the IT consultancy agency, and the adult habilitation clinic) in order to analyze the remaining cases. This resulted in dropping six of the original categories, renaming some of the categories, and refining the definitions of some categories. Refutation also ensured that the practices could be identified in the data from all eight firms. Finally, *iteration* (moving back and forth between stages) took place throughout the data analysis process.

To ensure the general trustworthiness of the categorization and the results, we drew on Wallendorf and Belk (1989), who suggest that the trustworthiness (i.e., validity and reliability) of qualitative research studies should be assessed in relation to five criteria: credibility, transferability, dependability, confirmability, and integrity. We used several techniques suggested by Wallendorf and Belk (1989). Triangulation across sources, methods, and researchers contributed to the credibility, transferability, conformability, and integrity of the research. For instance, triangulating interpretations of the data across the researchers on the team (two women and two men), counterbalanced both biased interpretations and reporting of the data on the basis of gender and values. The triangulation of methods and

sources ensured that the data collected from the informants was representative and that the findings concerning the practices and the four types of service innovation applied to all the contexts studied. Triangulation also contributed toward illuminating the information that some respondents felt uneasy about discussing; i.e. some respondents invoked the risk of revealing business secrets concerning how innovation is accomplished. Integrity was also ensured by safeguarding the firms' and informants' anonymity, and by using the interviewing techniques recommended by Wallendorf and Belk (1989). The latter entailed starting with "broad non-threatening questions," asking detailed and sensitive questions later on during the interview, or during a second interview (see the description of the interviewing methods). In order to further ensure credibility, we used negative case analysis, as recommended by Wallendorf and Belk (1989). When the initial analysis of three cases was compared to the rest of the data, six practices were either dropped or merged with other practices due to these practices not being supported, or only partly so. Credibility was also controlled by means of member checks, whereby the results and interpretations were presented to key informants for critique and corrections. Following Wallendorf and Belk (1989), dependability, that is, the avoidance of unstable interpretations, was checked using observations over time. All the cases were studied over a prolonged period of time, which made us return to key informants, formally and informally, several times in order to see if any variances, other than random ones, had occurred. If an informant communicated another understanding of a topic than the one previously communicated, we took this into account in our interpretations, asking probing questions in order to understand the informant's perceptions. Finally, in order to further ensure confirmability, researchers involved in the empirical research, but not in the writing, commented several times on the link between the data and the emerging conceptualizations, something which resembles the confirmability audit recommended by Wallendorf and Belk (1989).

FINDINGS

We present our findings on the anatomy the value propositions and, after that, on how service innovation takes place.

Value Propositions

In this section, we initially focus on describing the practices we identified that compose value propositions. Then, we show how the practices are interwoven as well as how they integrate resources and form value propositions.

Practices

The practices identified are the routine activities and sensemaking frameworks used to integrate resources into value propositions. We identified three aggregates of practices: *provision practices*, *representational practices*, and *management and organizational practices*. Each consists of several sub-practices (see Table 2).

Provision practices make sure the value proposition is fulfilled. In provision practices, "operating practices" integrate resources in order to support the value creation of the customer as stated in the value proposition. "Problem-finding practices" identify; (a) problems with the customer's value creation and (b) the customer's need for new forms of creating value. "Problem-solving practices" help to solve customer problems.

Representational practices enable communication between the parties, as these practices integrate resources so that the entire value proposition, or parts thereof, can be described, made sense of, and communicated, both internally and externally. Of these practices, "naming and labeling practices" refer to practices describing the activities of the value proposition and their fulfillment. "Modeling practices" create the structure of the value

proposition, presenting the value proposition as a meaningful whole. "Interaction practices" enable the firm to communicate the value proposition to its customers, or to co-create it with them.

The third aggregate, *management and organizational practices*, provide the baseline working methods and resources needed for provision and representational practices; these practices align, as well as organize, provision and representational practices, and the resources that these practices integrate. "Organizing practices" organize the work of providing and representing value propositions. "Staffing and team building practices" are used to hire staff and form teams that can provide and communicate service, i.e., creating workgroups, allocating people, and recruiting them. "Networking" practices are those in which the firm relates to and involves members of its network in order to create, deliver, or negotiate value propositions. "Knowledge-sharing" practices entail the dissemination of knowledge and skills, important resources, throughout the company by means of training, best practice sharing, and interaction in order to realize the value proposition for the customer. Table 2 provides an overview of these practices, with empirical examples.

Insert Table 2 about here, please

The anatomy of value propositions

Based on our findings, we propose a holistic view of value propositions as promises of value creation that build upon configurations of resources and practices. The three aggregates of practices are presented in Figure 1. Since provision practices are the practices intended to directly support the customer's value creation, they lie at the heart of the value proposition and are thus located in the center of Figure 1. Provision practices *enable* the value proposition by supporting customer value creation. Provision practices answer the question; "How does

the firm make sure that the value proposition can be used so that value-in-use emerges for the customer, according to the firm's promise?" Representational practices involve *articulating* the value proposition, giving it meaning and structure, and are used to communicate the value proposition both externally and internally. They answer the question; "How is the value proposition communicated, and what does it mean?" Representational and provision practices are closely intertwined: The former articulates the value-in-use which the value proposition aims to enable, while the latter involves the activities that help both the firm and the customer to realize the articulated value. Management and organizational practices support the core practices and are thus located at the outer edge of Figure 1. These practices *fulfill* the promise by aligning, organizing, and managing provision and representational practices, and the resources these practices integrate. Management and organizational practices answer the question; "How does the firm fulfill its part of the proposed value?"

Insert Figure 1 about here, please

In this section, we refer to two cases in order to illustrate the conceptualization.

PPC. At PPC, we studied the value proposition of making the client's (a paper and pulp mill) production process more efficient and effective. Before the contract was signed, the focal firm and the client engaged in numerous interaction and representational practices in order to co-create the value proposition, via setting goals for the outcomes and the working methods of the collaboration. During the project, a project group consisting of PPC and client staff was formed, exemplifying organizing and staffing and team-building practices. The operating practice included the project members monitoring and analyzing the data from the client mill in order to identify opportunities for increasing efficiency and minimizing the production facility's maintenance costs, and in order to find better methods of organizing the

work between the parties. The client data worked as an operand resource during the process. At meetings, the project team, predominantly PPC staff, identified problems and analyzed potential causes (e.g., poor lumber quality, errors made by the plant supervisor, suboptimal run-time, poor communication), and made plans for improving the production rate, thus engaging in problem-finding and problem-solving practices. Thereafter, solutions were implemented through operating practices, e.g. changing the lumber quality and training supervisors. After the contract was completed, the organization used representational practices when going through the value created in terms of the improved efficiency and effectiveness of the client's production process, as well as how the realized savings were to be divided between the consulting firm and the client.

TESP. At TESP, we studied a value proposition called revenue assurance (RA). The promised value of RA consists of supporting customers in tightening up their internal financial leakage. The respondents frequently referred to a major telecom operator (Teleop) that had bought the RA service from TESP early on, since this customer was essential for developing the service and legitimizing TESP as an actor in the RA business. In competition with other telecom service companies, TESP won an RA bid for a contract with Teleop. The key reason for securing this contract was the business model (i.e., a modeling practice) which TESP had constructed and which ensured that Teleop would pay for service provision only upon value creation, i.e., upon revenue recovery, and in relation to the amount of revenue TESP recovered. A consultant stated, "The business model was definitely a strong point because many of the other consulting organizations were not prepared to take that financial risk . . . The business model was set up in such a way that we had a joint target with the operator to recover revenue leakage. And when we reached a certain target, we would get paid." Revenue leakage means that a telecom operator does not receive all the revenue it is entitled to, often due to poorly integrated IT systems. The business model also integrated

practices for detecting revenue leakage (i.e., problem-finding practices), "systematic methods of problem analysis," as one RA consultant referred to them, "which entail looking for revenue leakage within the organization and its operation. This often leads to what we call a revenue assurance leakage report (RALR)" (TESP RA manager). An RALR is an example of a "naming and labeling practice" that concretizes the value that the value proposition is intended to create for the client. RALRs are associated with best practices, as they are called within TESP, aimed at addressing the problem causing the revenue leakage, e.g. synchronizing the operative system with the billing system or detecting a bug in the software. These problem-finding practices detect which parts of the system are sensitive. At these sensitive spots, TESP implements what one RA consultant refers to as "automatic alarms which report critical information about revenue leakage." These automatic alarms, the analysis of the information generated by them and the actions taken in response to the result of the analysis are an example of an operating practice creating value. To support Teleop in tightening revenue leakage, TESP also relied on several management and organizational practices. For instance, TESP collaborated closely with a small firm specializing in RA, i.e., a networking practice: "We had eight of their consultants during the initial phase of the project," stated one RA consultant. Furthermore, TESP set up a program office for coordinating all RA activities with Teleop and other customers, i.e., a form of organizing practice. Finally, staffing and team building were enacted in order to hire staff, a key resource, with the right profile for realizing the RA value proposition. According to the project manager, the "right people hold the key to success." In sum, the example suggests that the RA value proposition integrates resources and most of the practices we identified into a value proposition.

The results further suggest that value propositions are sometimes reciprocal and sometimes firm initiated, without any direct customer involvement. The TESP case shows

that the RA value proposition was negotiated both with the customer and with other stakeholders and that the firm can agree on a reciprocal value proposition with a client through co-creation. In contrast, other cases, e.g. the adult habilitation case, suggest little direct customer involvement in defining value propositions. Indeed, the adult habilitation case suggests that some customers are unable to co-create value via direct interaction due to, for instance, mental disability. The case further reveals that the personnel involved in developing value propositions use their experience of co-creating the service with their customers in tandem with other forms of knowledge in order to construct value propositions. This suggests that value propositions which are not reciprocal are informed by customer value co-creation indirectly.

Service Innovation

From an S-D logic perspective, previous research defines service innovation as a firm's creation of new value propositions or its development of existing ones (Michel et al. 2008). Our findings support this view, but enrich it by suggesting that service innovation takes place through developing existing or creating new practices and/or resources, and that these actions result in new or developed value propositions. Therefore, on the basis of the previous section, we argue that service innovation entails the development of existing, or the creation of new, provision practices, representational practices, and management and organizational practices, and/or the operant and operand resources that these integrate.

We identified four "typical ways" in which service innovation is accomplished, that is, four common ways in which the creation of new practices and resources and the development of existing ones creates value propositions. The four types, as shown in Table 3, are (1) *adaptation*, in which existing resources are integrated in new ways in existing practices; (2) *resource-based innovation*, in which new resources are integrated in existing or slightly

modified practices; (3) *practice-based innovation*, in which existing or slightly modified resources are integrated in new practices; and (4) *combinative innovation*, in which new resources are integrated in new practices.

Insert Table 3 about here, please

Adaptation

Adaptation entails a firm's existing or slightly developed operant and operand resources being integrated in new ways into existing or slightly developed practices. The scope of innovation is thus modest, as is the modification of the value propositions. Adaptations are commonly reported in our data and may create a new and attractive value proposition for the customer, despite the modest level of modification. Further, small stepwise changes may lead to extensive changes over time.

One example of an adaptation-based innovation is the development of the bank's website, a self-service technology for the customer. Only incremental changes to the website were needed: As one of the developers pointed out, "the website was in need of a 'facelift,' and old content would be recycled." The existing operand resource, namely informational content, could be reused ("recycled") and reintegrated into slightly modified practices. The main reason for developing the website was that content was being continuously uploaded (published) over time, eventually piling up to the extent that it had become difficult for the user to navigate and find the relevant information. Thus, the old website supported the customer's value creation poorly. In addition, management of the website was inefficient, as publishing and deleting information was perceived to be too time-consuming. The improvements included a new graphic design, new navigation tools, and an improved

publishing tool. Development involved re-integrating several, mainly *existing* practices and resources (although some new technology was also adopted).

Since a website can be viewed as a self-service technology, it is crucial that the website is user friendly and enable its users to create value. The provision practices are performed by the customer while he or she is interacting with the service provider's digital interface, i.e., a form of interaction practice. Thus, the operating practice—interacting with and surfing the website in order to find the information the visitor is looking for—depends on the user-friendliness of the website. The importance of making it more user-friendly, by developing the navigation logic, was discussed several times during the development project. During one meeting between the development team members and the reference group (representing the bank's frontline personnel), the following discussion was observed:

> Development team member: How about you [name of reference group member 2 omitted]? Do you feel there's something? You e-mailed me some bullet points. Are these something we should be considering on the project team?
>
> Reference group member 1: Not at the moment . . . no, nothing more than the stuff I e-mailed you, that it must be easy to find the contact information for our offices. I mean, when you think about a new customer who's surfing around, looking for a bank… that it's easy to find this type of information, that it [the new website] is clear and easy, and it's essential that navigating is logical and simple ... Now, concerning its information content, links to these suppliers xxx should be added, because this is something that was actually asked for [by a user] …
>
> Reference group member 2: Is this something our competitors have [on their websites]?
>
> Reference group member 1: Yes, some of them…
>
> Reference group member 3: Now, when you're talking about the information content… in respect of that, I feel it's really important that the content [be developed] with customer benefit in mind, that it [content development] should be from the customer's point of view, for the benefit of the customer, not just a bunch of product descriptions, but that we really put some effort into identifying what's interesting to the customer and that we underline this so we're communicating *with* the customer rather than describing ourselves.
>
> Development team member: Yeah, not just pushing loads of information …
>
> Reference group member 4: Yes, it [the new website] needs to be relevant to the customer—kind of like "Does this meet our customers' needs?" so that we don't say "the bank thinks this is something really good" but we do say "this is good for you."

This extract suggests that the frontline personnel (representing the reference group) wanted the development team to consider customer/user needs while developing the new

website, which would support customer value creation. During the development process, user tests were conducted in order to obtain feedback on the development of the navigation logic and structure (hierarchy) of the content. Thus, the customers were partly involved in developing both the operating practices and the problem-finding practices (navigation logic used to find the information being searched for) of the value proposition.

One example of developing an operating practice is the improved online loan calculator for home mortgages, a part of the bank's value proposition. Using an internal survey of frontline personnel, the development project team realized that the existing loan calculator had to be improved. In fact, most of the branch offices had stated that something "really had to be done with the loan calculator" [because it] "is unclear and unsatisfactory! We have received a lot of feedback from the customers saying they are unable to get anything comprehensible out of the loan calculator" (internal survey document). Thus, the functionality of the website loan calculator was developed in order to better support customer learning when it comes to the loans provided by the bank.

Related to the representational practices, the bank's website is a representational practice, since the site informs and promotes the value propositions offered by the bank. Here, the site map, or structure, of the information content was improved in order to give the customers a better overview of the value propositions and the business logic of these propositions (i.e., a modeling practice). Additionally, the information content drawn upon in order to communicate the value proposition was also improved. Old labels and descriptors were changed, and new ones were implemented to better describe the content of the value propositions. Thus, the project involved innovation in naming and labeling practices.

In order to run the new website (which included a new back-end solution consisting of new operand resources), as well as a publishing tool and an application server, key personnel were trained internally, exemplifying knowledge-sharing practices. In this way, the process of

uploading information to and retrieving it from the website was made more efficient in order to indirectly support the customer's value creation, since the information was more up to date. Thus, by reconfiguring existing resources and practices, the website and the bank's value propositions were both developed. The ad agency also conducted adaption-based service innovation. In that case, the adaptations were *ad hoc* and incremental, e.g. changing meeting locations to client premises in the hope that the client's representatives would participate in them to a higher degree, in turn leading to better project outcomes due to increased operant resources being employed within the project.

Resource-based innovation

Resource-based innovations entail new resources being integrated into existing or slightly changed practices. A new value proposition is thus created, or an existing one developed, through the implementation of new operant and/or operand resources.

An example of this is taken from the spa hotel, where new resources had to be developed to meet the demands of the new strategic business concept, decided on by top management, as regards becoming a sport and wellness center. This would entail being able to serve people who come to the hotel to exercise or to simply adopt a healthier lifestyle. This decision influenced many departments, among them the restaurant. The manager of the restaurant realized that his staff were not competent enough to understand the needs of these types of customers that have a heightened awareness of healthy food. It was also predicted that there would be great variation in customer needs. People exercising hard by training to prepare for a race would have certain needs; in the morning, they would probably require large levels of carbohydrates; after training, they would need a top-up of even more carbohydrates and proteins. In contrast, the wellness category customers would likely have other requirements, e.g. antioxidants and vitamins in their food. The manager also expressed

the need to know more about various diets, e.g. low carbohydrate high fat (LCHF), the Atkins diet, and the Glycemic-Index (GI) diet, to name a few. The restaurant manager said; "The food was one of the issues we [the management group] discussed when planning the new concept of sport and wellness. What do we need to change? What do we have and what don't we have? What do we have to do?"

After internal discussions at the restaurant, it soon became obvious that the entire restaurant staff needed to become more competent in food, diet, and nutrition. The restaurant manager said; "Suddenly, it was more than 45 people who needed training in nutrition." Thus, the entire staff attended an on-site course, divided into three sessions and taught by a nutritional expert and a dietitian. The result was an upgrade of the employees' competence (operant resources), which was necessary in order to meet the new requirements of the customers. The goal was to be able to give the customers advice; for example, if someone said that he or she was training for a race, the waiter would then have to be able to advise him or her about what type of food to choose. The development of the operant resources would thus enable new forms of value creation for the customers.

However, not only the operant resources were renewed; new types of operand resources, namely food resources, had to be purchased and incorporated into the restaurant's service system in order to provide customers with new value propositions. In other cases, the resource-based innovations also originated from the resources available: For example, in the PPC case, the opportunity to collaborate with a university research team caused the project group to think how it could use the suddenly-available operant, knowledge-laden resources, leading to the identification of new problems for which complex data analysis abilities could be used.

Practice-based innovation

The third type of service innovation, practice-based innovation, involves integrating existing or slightly changed resources into new practices. At PPC, we observed the firm's development of its service concept, aimed at improving the operating efficiency of the client's mill. In order to improve efficiency, PPC innovated a new type of problem-solving practice—a workshop, where a project group went through and documented the typical phases of one particular process area, then creating a general process description and a best-practice model. In order to improve the operating process and put these models into practice, PPC staff visited the client's mill to educate the operators: "We have this on the job training, where we are in the monitoring room with the operator and we run the machinery jointly and give advice, discussing these best practices." However, a big problem that emerged repeatedly during the development project was the fact that the client's mill operators did not follow the advice given by PPC, which led to suboptimal production levels and, thus, directly decreased value for both parties. PPC and the client jointly identified two main reasons for the problem: the general low competence of the client's staff and the staff's resistance and non-commitment to the improvements being suggested by PPC. Thus, PPC also had to develop the client's operant resources and operating practices in order to implement change. A PPC engineer complained during a meeting; "Well, when you're with them [the client mill operators] running the production process, and you unfortunately have to tell them that they should make such and such a change, then the guy makes that change and turns his back on you without asking why the change had to be made, what the point of it was. Like, how can he ever understand why the change was made, if he isn't interested in it?" PPC understood the need to gain the interest of the client's operating staff. To do this, PPC employees had to reconsider their interaction practices with the client staff in order to improve the operating practices (which, in fact, the client staff carried out because of PPC's advice). PPC had previously been running training courses for the staff which concentrated on optimal machinery operating

methods, but now they were coming up with several solutions: problem-based training, in which the client's staff would learn to solve different types of production problems, and requesting that the staff list the changes they would like to see made to the production run (i.e., a new type of problem-finding practice).

Combinative innovation

Combinative innovation entails new operant and/or operand resources being integrated into new practices, something which radically develops an existing value proposition or creates a new one. This service innovation type entails the firm promising its customers a radically different value, compared to what it had previously been offering.

One example of combinative innovative is the innovation of the Revenue Assurance (RA) service by TESP in close collaboration with client Teleop and other stakeholders. Before the project, neither the practices nor the resources to offer RA existed. One RA consultant confessed; "I knew nothing about this [RA] when we started. X [name of person omitted] did a print-out from Wikipedia defining what revenue assurance is, and we went down to the client to start work." Together with client Teleop, a new value proposition, with new practices and resources, was developed.

A key to the success of the innovation process, according to several of the people involved, was the operant resources and the recruiting and team-building practices. Regarding the operant resources, the project manager said this:

> I recruited all those working on the project from day one. The right people hold the key when you're developing a service. I was very firm on this; I nearly lost my job… I declined six CVs from my boss. He went crazy at me. Finally, I told him that I couldn't accept people who clearly didn't have the right ability. Then, I called X and Y [names of persons omitted]. I said to my boss, "These guys you can put a parachute on and push them out of a plane in any part of the world. There might be a war on, but you can always be sure that they'll come back alive, and with some money as well."

Although those who had been recruited lacked experience of RA, they had a general understanding of telecom operators, and their products and IT systems, which was needed in

order to locate the source of the revenue leakage and to understand how to address it through, for instance, changes to the IT system. The key modeling practice was the developed business model. As stated in the value proposition section, TESP would get paid for providing services only once value had been created for Teleop, that is, on revenue recovery, and in relation to how much revenue TESP recovered. Thus, one RA consultant involved said; "The business model gave both us and TESP similar goals to strive towards, which was important for success."

Another essential factor contributing positively to both the innovation and the development of operating practices in particular was the close level of co-creation with client Teleop. An RA consultant said that, when the work was scaled up, "There were some 60+ solutions architects and consultants at the local or regional level at least, working hand in hand with Teleop personnel." Teleop's operative personnel knew from experience where the revenue was leaking, but they lacked the mandate of their management to deal with the leakage. Focusing on leakages Teleop's operative personnel knew about developed TESP personnel's knowledge and skills in RA. This also contributed to the development of best practices, as they are known within TESP—operating practices in our terminology—for tightening leakage which could be used in other organizations. One RA consultant said; "We found leakage in similar places, and we were then able to develop methods and findings into best practices that we used at other telecom operators. These [the best practices] form the basis of our services now."

Several of those involved also talked about the importance of developing a common language (i.e., naming and labeling practices), such as "revenue leakage report," a summary of the results of applying problem-finding practices, i.e., the problems at hand, which then indicates which direction to take in order to deal with the problem (by applying operative or problem-solving practices). A common language was also important for co-creating and

interacting with the customer, thus being a form of interaction practice. One TESP consultant described constructing a "platform" of key performance indicators (KPIs), together with a Teleop representative, for financial reporting which conveyed the interaction regarding the recovery made between TESP and Teleop, which is now used to communicate with other telecom operators within the context of RA. "I made the KPI model in very close collaboration with X [Name of Teleop representative omitted] … and concentrated on that for three months to try to enable a platform where we could design a common financial reporting methodology." Thus, new provision and representational practices were developed that, together with developing in particular the operant resources, formed the core of the service.

In addition, new management and organizational practices were developed in order to coordinate operations. An RA headquarters was set up at TESP, i.e., an organizing practice. In addition, a joint board between TESP and Teleop was set up to determine, according to the business model, what reimbursement TESP should receive for the various recoveries, i.e., a networking practice. As one RA consultant described it; "We governed the project via a steering group that involved CFOs [chief financial officers], CIOs [chief information officers], and COOs [chief operating officers] from both ourselves and Teleop, who agreed on the amounts recovered and our compensation." Furthermore, knowledge-sharing practices in the form of RA workshops, conferences, and meetings were also set up to diffuse the core of the value proposition (provision and representational practices as well as the new knowledge regarding RA) throughout TESP. "We held workshops in the four regions during which we worked with RA. We communicated the revenue assurance best practices, and we checked if any best practices that we could use had been developed locally." (RA project manager)

In sum, the innovation of the RA project at TESP shows that all types of practices were developed and that these, together with the development of, in particular, operant but also operand resources, led to a new value proposition and service.

DISCUSSION, CONTRIBUTIONS, AND FURTHER RESEARCH

Anatomy of the Value Proposition

In the opening of this paper, we argued that the value proposition concept is key to S-D logic, that the concept is much used by practitioners, and that few systematic studies exist of which parts value propositions consist of (Ballantyne et al. 2011; Vargo and Lusch 2008a). We investigated the following research question: What is the anatomy of value propositions? One key contribution made by the present study is that value propositions consist of 10 practices grouped into three aggregates (see Figure 1), and that these practices integrate operant and operand resources into value propositions. When this resource integration process has been stabilized, and when a stable relationship exists among the practices, a value proposition will exist that is aimed at benefiting the customer's value creation. The practices enable the maximal utilization of the firms' knowledge and skills, allowing it to interact with other parties. Thus, this inductive study has contributed toward unraveling the anatomy of value propositions.

Based on this general understanding of value propositions, the paper also makes more specific contributions to the recent advancement of knowledge regarding value propositions in the S-D logic literature. According to this literature, two characteristics differentiate a S-D logic view of value propositions from a G-D logic view: co-creation and resource integration (see the literature review). First, our findings suggest that value propositions are sometimes created solely by the firm, with customer data playing the role of an operand resource, and sometimes they are co-created by the firm, the customer, and other actors, meaning that co-creation extends to the firm's core business area: i.e. the creation of value propositions. Thus, firms may create value propositions in isolation (Lusch et al. 2007; Vargo and Lusch 2004a) and co-create value propositions together with their customers (Ballantyne et al. 2011), or

with other parties (Bititci et al. 2004). This finding extends the original foundational premise of S-D logic, which states that firms create value propositions (Vargo and Lusch 2004a), but leaves unanswered how they do it. Our findings reveal that firms may have different understandings of the resources available, those recognized as relevant and those lacking in relevance, depending on how they formulate their main value proposition. Thus, the value proposition acts as an internal guideline (Chesbrough and Rosenbloom 2002; Lindic and Marques da Silva 2011; O'Dell and Grayson 1999), which may also limit the perceived alternatives within the firm. When the value proposition is created solely by the firm, it may serve as a communication tool that firms use to position themselves vis-à-vis competitors, suggesting outcomes for the customer (Anderson et al. 2006; Edvardsson et al. 2011). Consequently, what we originally saw as indistinct and varying definitions of the value proposition concept may, in fact, be an indication that value propositions play multiple roles internally and externally.

Second, regarding resource integration, we found that we need to understand both the resources and the practices through which the resources are integrated. This suggests that value propositions are created through practices that integrate operand/operant resources into a value creation promise, which is a value proposition. However, we question whether or not promises can be formulated without planning in advance how they will be fulfilled, and we suggest that, in order for the "value proposition as a promise" to better reflect the S-D logic perspective, the concept must be broadened. Instead of being a promise about "some value" or benefits (see, Ballantyne and Varey 2006; Calonius 2006; Frow and Payne 2008; Kowalkowski 2011), we believe that a value proposition is a promise not only about *what* but also about *how* the firm, the customer, and other parties co-create value on the basis of the value proposition, with the help of resources, providing a link between activities and outcomes. This type of thinking is in line with the S-D logic assumption that "enterprises can

offer their applied resources for value creation and collaboratively (interactively) create value following acceptance of value propositions, but cannot create/deliver value independently" (Vargo and Lusch 2008a, p. 6). In addition, as Karpen et al. (2012, p. 22) suggest, the firm must optimize its resource integration processes in order to "capitalize on superior value propositions," referring to the need to align activities taking place after the value proposition has been (co-)created. Consequently, we conceptualize value propositions as (co-)created promises of customer value that are backed up by plans regarding how resources can be efficiently integrated through practices.

Service Innovation

This study also contributes toward research into outcomes and types of service innovation, as well as research into the service innovation process.

An S-D logic-based typology of service innovation

The review of the literature on the outcome and types of service innovation suggests that the existing research has mainly been based on a G-D logic understanding. The literature has focused on how firms embed value in services understood as intangible products during service innovation processes. In particular, the research has centered on distinguishing between different types of service innovation (Perks and Riihela 2004; Toivonen and Tuominen 2009), and on different outcomes (e.g., Crawford and Di Benedetto 2000). S-D logic approaches service innovation from the standpoint of service, without an *s* at the end, which is about how firms can better serve (Mitchel et al. 2008; Vargo and Lusch 2008a). In particular, S-D logic involves focusing on creating and developing the value propositions through which firms can support their customers' value creation regardless of whether this takes place through services or products.

To the best of our knowledge, no study has generated an S-D logic-based service innovation typology, which we are doing here. The typology is based on the contribution made by the present study in defining service innovation. Based on the findings of the present study, service innovation is understood as creating new or developing existing value propositions by creating new or developing existing practices and/or resources, or by integrating existing practices and resources in new ways. In particular, our study suggests four types of service innovation (see Figure 2):

1. Adaptation: Existing resources are integrated in new ways in existing practices

2. Resource-based innovation: New resources are integrated in existing practices

3. Practice-based innovation: Existing resources are integrated in new practices

4. Combinative service innovation: New resources are integrated in new practices

Insert Figure 2 about here, please

What makes our typology distinct is its foundation in S-D logic, approaching service innovation from the standpoint of the customer value creation promised by a value proposition. Previous research has mainly approached innovation from a firm perspective and has focused on the "what" of innovation, e.g., innovation in product, process, organization, or business model (Perks and Riihela 2004; Toivonen and Tuominen 2009). Although our model also has a "what" dimension describing *what* resources are being innovated or developed, the emphasis is still on what effects the resources constituting the value proposition promise in terms of making the customer better off. In addition, our model also focuses, by taking into account the practices of value propositions, on the *how* dimension of service, that is, what actions and activities that enable the value proposition to promise that the customer will be better off. Thus, the foundation of our model is in line with the key proposition of S-D logic

that service innovation should be approached from the perspective of how firms can facilitate their customers' value creation, not from an intra-organizational perspective.

Our research also contributes to the debate on the outcomes of service innovation. Innovation types 1–3 in this paper show kinship with what the innovation literature refers to as incremental innovation, while type 4 can be considered radical. Thus, the paper suggests an alternative typology that is relevant to the service and manufacturing industries, but containing parallels with previous typologies. Specifically, the current paper adds precision to the definition of radical service innovations, from the S-D logic perspective, offered by Ordanini and Parasuraman (2011, p. 10), defining radical innovation "as the extent to which a firm's new services differ drastically from current offerings and require major changes in the application of competences." The last part of Ordanini and Parasuraman's definition suggests that radical innovation is a function of major change in the application of operant resources (e.g., competences). Our paper contributes toward understanding *how* these competences are applied, namely in practices, and argues that these activities of application are a key part of the developed service.

The service innovation process

The literature review on the service innovation process distinguished between a structured, normative, and aggregated perspective (e.g., de Brentani 2001) and a practice-based, emergent, and descriptive perspective (e.g., Fuglsang and Sørensen 2010). These two perspectives are decoupled in the existing literature, but we have argued that approaching service innovation using an S-D logic lens offers an opportunity to integrate them.

Methodologically, this study shows the highest level of kinship with the practice-based approach. We have focused on the resources and practices, at the micro level, which actors integrate in order to create value propositions. However, one problem with previous

research into the practice-based stream is the lack of generic models that can inform the management of the service innovation process—which has been the strength of the structured view. The practice-based service innovation typology presented here contributes managerial implications regarding the service innovation process. This typology suggests that some service innovation processes are dominated by the resources that are being innovated. In such *resource-based service innovation processes,* the key to success lies in developing *what* value a value proposition promises. This is done by acquiring and applying the right resources, developing and matching them, and aligning them with customer requirements. Thus, managing resource-based service innovation processes may be about acquiring a new technology, developing the knowledge of either the personnel (e.g., HRM) or the customers, and knowing what the customer wants through marketing research or relationship marketing techniques. The service innovation typology also suggests that some service innovation processes are dominated by the practices being innovated. In such *practice-based service innovation processes,* the key to success lies in developing the routines and underlying cognitive frameworks concerning how the promised value of a value proposition is internally developed and co-created with the customers. This is conducted by developing provision, representational, and management and organizational practices. Thus, it may involve managing how the value proposition is communicated, how team-building is conducted, and how problems are identified in the customers' processes. Finally, the service innovation typology suggests that some service innovation processes are dominated equally by innovation in resources and practices. In such *combinative service innovation processes,* managing what value a value proposition promises, as well as how this value is internally developed and co-created with the customers, is key.

Managerial Implications

The key managerial insight arising from the present paper is that service innovation must be conducted and value propositions must be evaluated from the perspective of the customers' value creation, the service that customers receive. What service the customers receive (resources), and how they receive it (practices), must be considered.

The first, more precise managerial implication of this paper is that firms seeking success in service innovation have to ensure that they not only have the right resources but also established ways, referred to in this paper as practices, of integrating these resources into attractive value propositions. This paper outlines 10 such generic practices that firms need to consider. The practices identified in this paper can be thought of as meta-practices which help to identify important areas, but which must be specified in order to suit the particular firm. Although established practices offer a means of continuous improvement, practices that are too rigid may, in fact hinder, innovation (Benner 2009). Describing these practices also makes them more transparent, and they can be subjected to careful scrutiny. Firms must make sure that they build the procedures through which the practices are scrutinized and developed.

A second managerial contribution concerns how a firm can serve its customers better by articulating what can be done for them, what practices can be offered to them, and how this can benefit them. Managers are therefore encouraged to collaborate with their customers during the innovation process. In this way, customers will more easily be able to make sense of how the company can enhance their value-in-use. Moreover, the firm and the customers can jointly scrutinize their practices, possibly identifying inefficiencies or opportunities for development. Thus, in line with Grönroos and Voima (2013), we argue that firms are not restricted to offering value propositions alone; they also have the opportunity to actively influence their customers' value creation.

A third managerial contribution is coupled with practice-based innovation. Innovation at companies has traditionally focused on inventing new products, technologies, and

resources. Practice-based innovation points companies in the direction of inventing new opportunities (value propositions) for their customers, enabling their value creation. This form of innovation takes the customer value creation practices as the point of departure, and aligns firm practices with them to support customer value creation. Thus, in line with recent service management research, we encourage managers to switch their focus from offering to what Strandvik et al. (2012) refer to as "customer needing," when developing value propositions. A focus on needing "pinpoints that sellers need to understand and improve how they can fit customer needings and thus support the customers' value creation" (Strandvik et al. 2012, p. 141). This type of focus facilitates the emergence of a customer-dominant logic, grounded in customer agency, which guides business managers in building "in-depth insight into customers' activities, practices, experiences and context" (Heinonen et al. 2010, p. 534).

Future Research and Limitations

One limitation of the present study is its qualitative approach. We thus believe that future research should generalize our results across contexts. For example, are the aggregates of the practices we identified context-specific, or are they more general? Could additional practices be identified? In addition, knowing what happens within practices, i.e., what factors determine whether or not a value proposition practice works well, is important. Future research should focus on the relationship between firm practices and customer value creation practices. What determines whether or not firm practices support customer value creation practices? Are there ways of aligning firm-generated and customer value creation practices in co-creating value? If so, how does this kind of alignment work? Or is the distinction between firm and customer practices misleading? Another important area for future research is exploring the extent to which current value propositions restrict service innovation by

blinding the firm from seeing alternative ways of acting, and alternative resources that could be deployed.

Future research should also focus on developing the service innovation typology by focusing on practice innovation that has not been addressed in-depth in previous research. In particular, not enough research has been conducted into how existing practices are developed, and new ones created. What mechanisms within existing practices drive their modification? What factors foster the creation of new practices and the modification of existing ones? How do different practices work together? What implications does this inter-relationship between practices have for service innovation? Future research should also focus on how service innovations evolve over time. Do service innovations evolve via combinations of the four types we have identified? If so, can different combinations be identified? Further, Madhavaram and Hunt (2008) identified resources at several levels, something which was beyond the scope of this study. However, future research could look into the use of different types of resources, with practices, and whether or not this leads to different levels of innovativeness and competitive strength.

One limitation of the present study, which also calls for further research, is its focus on innovation projects and employees outside the R&D department. Even though previous S-D logic innovation research has shown that such personnel, e.g. managers and frontline employees, contribute to firms' creation of value propositions (Cadwaller et al. 2010; Melton and Hartline 2010; Ordanini and Parasuraman 2011), whether or not the findings of this study will apply to R&D department service innovation is something that needs to be investigated in future research.

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Tables

Table 1: Data Collection

Firm (approx. no. of employees)	Value proposition /Focus of study	Interviews	Observations	Key documents
TESP (30,000)	Revenue assurance: Assisting telecom operators in tightening internal financial leakage in their revenue streams.	13 (6 managers, 5 consultants, 2 programmers)	3 (Reference group meetings)	7
Spa hotel (100)	Sport and wellness concept: Bringing professional training, relaxation, and appropriate food to customers. Development of several value propositions supportive of the main concept.	22 (CEO, 6 top management, 3 reception, 2 cleaning staff, 4 restaurant staff, 3 fitness staff, 3 spa therapists)	6 (1 development group meeting, 2 employee back-office meetings, 3 work processes)	10
Adult habilitation (100)	Care supply re-engineering: Creating habilitation value propositions for new customer groups: adults with neuro-psychiatric disorders.	7 (3 project managers, 3 habilitation assistants, 1 psychologist)	13 (3 information meetings, 8 work group meetings, 2 steering group meetings)	31
IT consultant (40)	Housing register: Creation of a housing register enabling market actors to retrieve information, making transactions easier and more secure.	6 (1 CEO, 2 programmers, 1 manager, 1 project manager, 1 external expert)	6 (4 reference group meetings, 1 start-up meeting, 1 administrative meeting)	15
Bank (675)	Giving financial advice to customers. Improving the bank's website.	14 (8 branch office managers, 1 senior private banker, 5 financial advisors	18 (14 development group meetings, 1 steering group meeting, 3 reference group meetings)	17
PPC (1,000)	Making the client's production process more efficient and effective in collaboration with the client. The realized savings are shared between the client and the consultancy.	4 (1 project manager, 2 service engineers, 1 product manager)	8 (3 preparatory meetings, 3 development group meetings, 2 customer visits)	15
PPM (24,000)	Technically supporting the client's paper-related production process.	8 (4 technical service regional team members, 4 team managers)	10 (development group meetings)	8
Advertising agency (100)	Supporting the clients in communicating with their customers.	4 (1 art director, 1 copywriter, 1 key account manager, 1 project manager)	10 (8 project meetings, 2 client meetings)	3
Sum		78	74	106

Table 3: Service Innovation Types

	Resources	
Practices	Existing (slightly modified)	New
Existing (slightly modified)	1. Adaptation	2. Resource-based innovation
New	3. Practice-based innovation	4. Combinative innovation

Figures

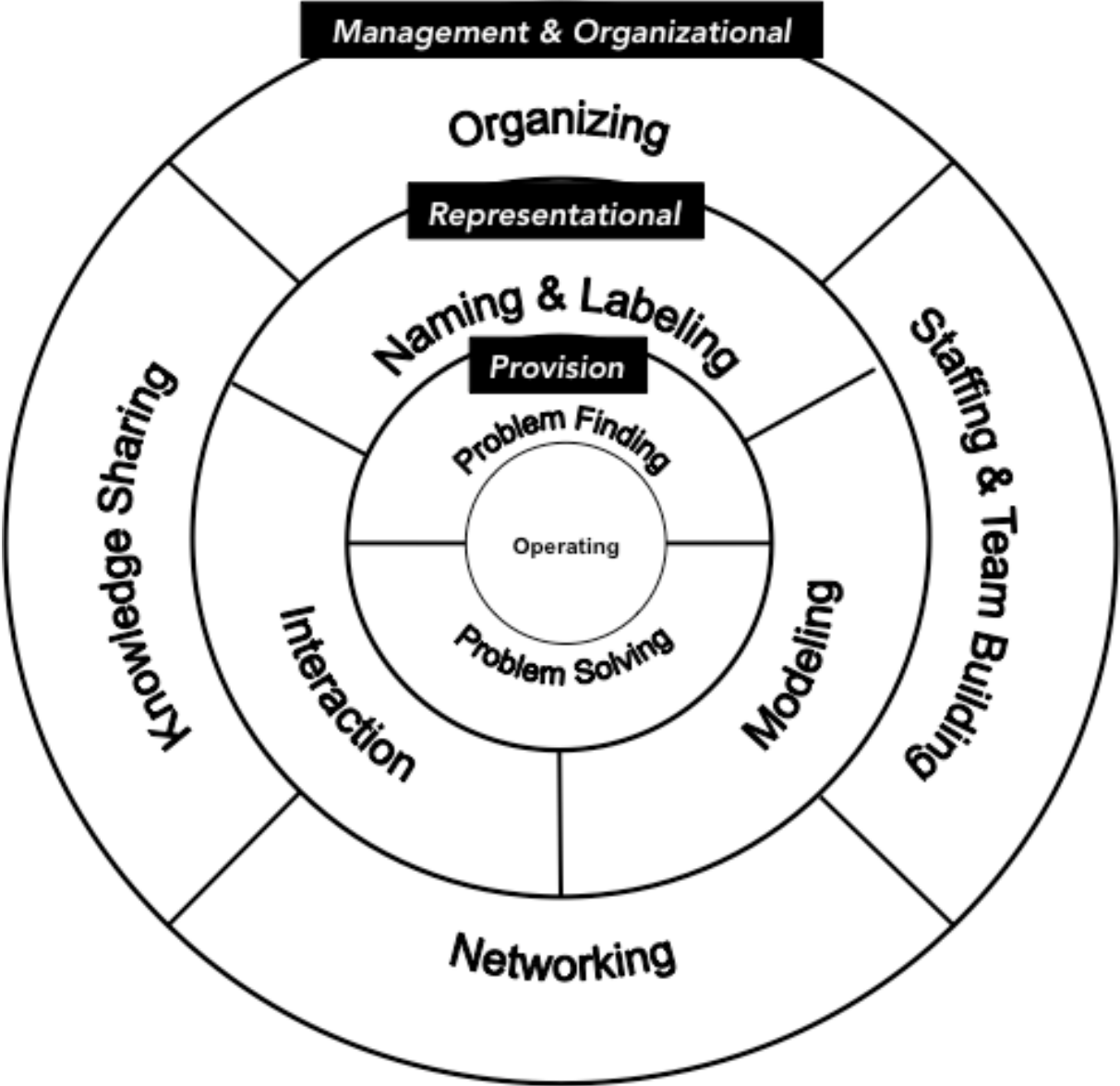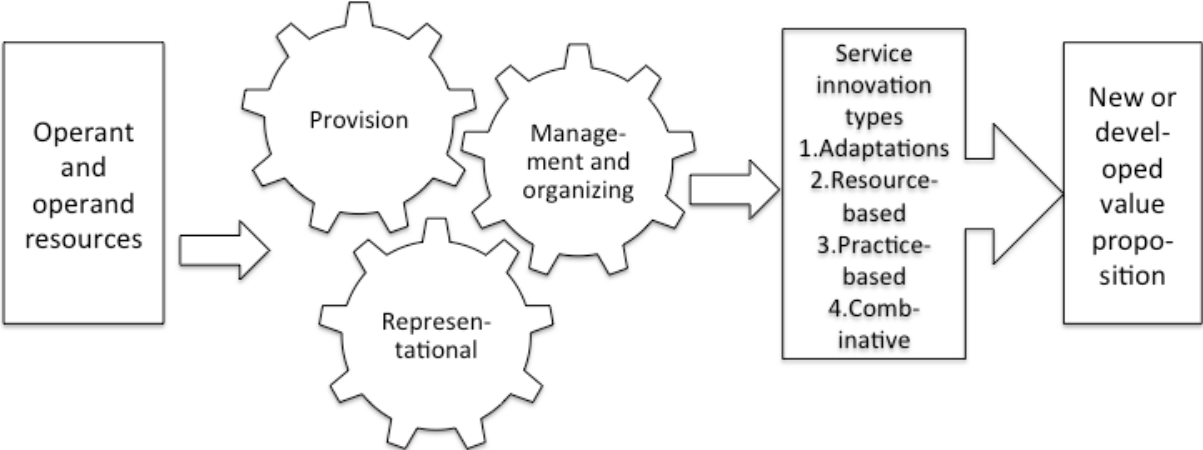*Figure 1: The anatomy of value propositions*

Figure 2: Service Innovation

Appendix I

Interview guide, staff at Adult Habilitation

Background, Adult hab.	• Describe how operations at Adult Hab look. What do you work with?
	 • If you were to describe a normal day at work, how would it look?
	 • If you compare Adult Hab with other workplaces, what distinguishes it?
	 • Do operations here differ from other adult habilitation units in Sweden?
	    o How long have you worked at Adult Hab?
	    o What did you previously do in your working life?

Adult Hab. Organizational level	• Can you tell us what the project was about?
	    o Knowledge work routines
	    o Customers/patients. Define patients.
	    o Laws
	    o Structures
	 • Can you tell us a bit about the background of the project?
	 • Why do you think that Adult Hab here in Karlstad is prominent in this type of project?
	 • What is the significance of a shared language?
	 • What contact do you have with the county council?
	 • Are there any other contacts that you find useful?
	 • Are there any networks, stakeholder organizations (networks) around the patients that you have?
	    o In which way can these influence your work?
	    o In which way can these influence the patient?
	    o How do your co-workers' contacts with the networks look?

Adult Hab, Customer requirements	• How do you know which needs the patients have (experiences)?
	    o Patients' expectations regarding Adult Hab
	 • How will the project affect the patients in the future?
	    o Identity
	    o Tools
	 • Have you needed to adapt the original idea behind the project in any way?

Adult Hab, Individual level	• When did you get involved in the project?
	 • How did you get to be involved in the project?
	 • How are your experiences from previous projects contributing to this project?
	    o If you compare this project with other projects, do you see any similarities and/or differences?
	 • What do you see as being your contribution so far?
	 • Which difficulties/problems exist within the project?
	    o Difficulties of implementation?
	 • How often does the project group meet to discuss results and problems arising?
	 • How will you proceed after today?
	 • If you were on the project group management team, how would you have arranged work within the project?
	    o Tips for a successful project?
	    o Successful development within Adult Hab.

[1] Habilitation is for patients that suffer from a disorder or disability, mental or physical, from which they can never fully recover – they cannot be rehabilitated. Habilitation activities aim to help the patient lead a good life despite his/her disorder or disability. The habilitation clinic we studied is an out-patient clinic, open during the daytime, which accepts patients with appointments.

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Table 2: Practices and their integration of resources

Aggregate	Type (exemplar)	Definition	Empirical illustration	Explanation
Provision practices	Operating practices (best practices, diagnosis schemes, work packages, collecting information, documenting)	Aimed at supporting the core customer value creation as stated in the value proposition.	PPC: "Here at online-diagnostics, we have this online connection [in order to optimize the client's manufacturing process]... We don't change the process from here, but if we want changes then we call them [the client factory] and make contact with the control room, the shift supervisor, and discuss what they have to do. Then, we make sure that the change is in the right direction." (Development manager)	The example concerns PPC's value proposition of overseeing the production process at the client's paper and pulp plant, with the aim of optimizing it. The operating practice of "online diagnostics," and the related activities (calling, discussing), integrate operant (staff knowledge and interpretation) and operand resources (reports) in order to support the client's value creation. The quotation also suggests that the customer, through co-creating, is involved in the practice by means of discussions, and by making the actual changes.
			PPM: "If it's a … very difficult paper, of course then we … try to be there, when they [customers] use that paper for the first time because otherwise you'd have a problem, so we manage these, let's say introductions of new papers, and then we give advice, we give recommendations, and that's of course an added value." (Technical service manager)	The value proposed by the PPM provider is improving customers' production processes. The extract suggests that giving advice and recommendations to the customer on site are operating practices used to support the customer's value creation. These operating practices integrate resources, e.g. knowledge about "difficult papers."
	Problem-finding practices (technical audits, customer surveys, brain-storming, investigation, assessment, pilot studies)	Identifies (a) problems with customer value creation and (b) customer needs for new forms of creating value.	Adult habilitation: "We do a lot of different assignments together with our clients. We film and take photos identify appropriate activation and training programs." (Physiotherapist)	In the citation, the "different assignments" of filming and taking photos are examples of problem-finding practices used to integrate resources in such a way that customers are offered a value proposition, in this case "appropriate activation and training programs" that support their value creation and meet their needs.
			The Bank: "If we take the financial investment side, we make these individual investment plans jointly with the customer. We simply have to ask the customer certain questions in order to be able to give proper investment advice. Twice a year, we have follow-up meetings with the customer when we discuss and assess the plan and make adjustments whenever needed." (Senior private banker)	"Meeting face-to-face twice a year," "asking questions," and "discussing" are all problem-finding practices that the bank draws on when identifying the customer's investment needs. The bank makes formal and legally-binding agreements with customers, labeled "Individual Investment Plans" (IIPs). To make these plans, the financial advisor uses a software program (developed for the IIP concept) that requires certain information from the customer. In this way, the competence of the personnel (operant resources) and the technical resources (operand resources) are integrated into problem-finding practices and they become a part of the value proposition being made to the customer. In this case, the customer is highly involved in the realization of the value proposition.

			PPM: "I travel quite a bit—I'd say 60–70 days a year—visiting customers and providing plants with troubleshooting services. Sometimes, it might be the case that it isn't a paper fault, but then, of course, we provide help in order to support our customers. For example, we have this kind of run ability device (I-roll) which also supports troubleshooting work and process optimization. So, basically, the device has a very sensitive surface that constantly follows the paper web that it runs over, and it realizes right away if the customer is experiencing some deviation, e.g. in the paper profile." (Technical service manager)	The citation from PPM illustrates how problem-finding practices such as "customer visits" are integrated with operand resources, i.e., troubleshooting technical devices (I-roll) to identify problems and support customers' value creation.
	Problem-solving practices (integrating IT systems, getting rid of bugs in data coding, implementing software, and aiding users)	Solves customer problems.	IT consultant: "The customer reports a problem. My challenge is to find out what part of the code is causing the problem." (Programmer) PPC: "Well, the client operators, if they come up with a solution themselves, they will adopt it; however difficult it is, it will be implemented. But if it's me or somebody else who goes there and says this would be a good thing to do, they won't do it." (Client representative) "We will change the approach to training [for the client's machinery operators]. We will start basing the training package on how to solve different kinds of problems, and how to prevent them. In that way, we can get the [clients' machinery] operators interested and committed [to following our instructions on how to run the machinery properly]." (Project manager)	A customer finds a bug in the IT system that he uses to create value. To solve the problem, the programmer needs to integrate the resources of the value proposition, "the code," differently. This example refers to solving problems in the pulp and paper production process that are caused by the client's staff not following the guidelines provided by PPC to improve the efficiency of the production process, and to prevent breakdowns. The idea is to implement a new type of training—a problem-solving practice—to deal with the disengagement of the client's staff. Therefore, problem solving would include operant resources (training staff) and operand resources (problem-based training materials).
Representational practices	Naming and labeling practices (Standardizing language, compiling lists, mapping, defining concepts, branding and producing presentations)	Describes the activities of the value proposition and their fulfillment.	TESP: "[Revenue assurance] existed previously as a loose framework. We've been involved in developing a language such as 'revenue assurance leakage report,' which makes it possible to replicate the service around the globe." (Consultant). The spa hotel: "We have a defined concept [sport and wellness] that makes it much easier to choose between ideas for new therapies—you immediately feel whether or not it matches our concept." (Spa department manager)	The consultant states that, through the naming and labeling practice of "developing a language," resources that existed previously as a "loose framework" become integrated into "revenue assurance leakage reports," which are a part of the revenue assurance value proposition at TESP. The manager of the spa department states that the "sport and wellness" concept function as a naming a labeling practice guiding her sensemaking when it comes to selecting new therapies, the resource configurations, to offer customers.

Modeling practices (business models, maps, matrixes, schemes, designs, concepts)	Creates the structure of the value proposition.	TESP: "To make a service work, you need a common language which is a common map that everybody understands and which makes everyone pull in the same direction." (RA manager) The spa hotel: "Right now, we're in the middle of this very interesting situation. We have a concept, but we haven't prepared a presentation yet, since a few of the details are still missing… But we'll have a very clear profile; we'll be different from our competitors." (CEO).	The first citation suggests that sensemaking frameworks, e.g., "common language," "common map," are needed to make the personnel ("everyone"), e.g. an operant resource, work well together and toward common goals in order to propose attractive customer value. The second citation exemplifies modeling practices in the form of common concepts and illustrates how common concepts unify the various parts of the service into a value proposition.
Interaction practices (telephone calls with customers and dialogs with fellow employees, offerings and reports)	Enables the communication of value propositions to customers or the co-creation of value propositions with customers.	The spa hotel: "I've said that it's the guest standing in front of you that has the highest priority. But if you feel that you can ask if it's okay to answer the phone, it's acceptable to do so. But the caller might be someone who wants to make a booking. That takes at least ten minutes. It's not okay to let the customer standing in front of you wait that long. In cases like this, you'll have to either take the person's phone number, or ask him/her to call you back later." (Reception manager) PPC: "Are we able to get here [show our clients how we're able to help them solve their problems] using our tools; is that the solution? Are we able to put the correct questions to our clients as regards what the current situation is? Now we're asking what they're trying to achieve..." (Project manager) "All tools are useful for that." (Group member) "Well, if you want to sell our solution to the factory, how do you start off the presentation?" (Project manager) "Well, of course, I make lots of references to what we've achieved previously, using which measures, and I kind of explain, in plain terms, that we'll achieve this and that using simple measures." (Group member) "We made those pilot calculations regarding, for example, what it will cost if a seal fails during the process, what it will really cost, and there's just one simple solution: that we have to perform regular maintenance, as we do now. It's obvious and the client says this is why we buy from you, because that [seals failing during manufacturing] is too expensive." (Project manager) PPM: The presentation we give to our customers is about paper making, how paper is made, and you automatically come to the different paper grades. By giving that presentation, we talk about grades, we talk about wood. So, in fact, it's partly educational. But it's also partly promoting our product." (Technical service manager)	The reception manager discusses the problems that reception has with incoming calls at weekends. Regular bookings are only available on weekdays; nevertheless, people call in to book rooms at weekends, and these calls are switched to reception. If they take a booking, this will take at least ten minutes. This will cause problems when guests arrive at the reception desk. Here, the manager discusses how she expects her employees to handle the situation; she thus describes an interaction practice. The citation from PPC shows a project group assessing whether or not it is able to interact efficiently ("show the client") and whether or not its problem-finding practices are optimal ("are we able to put the correct questions to the client?") in their interaction practices with the client. Thus, in these interaction practices, PPC aims to communicate the superiority of its operating practices (problem-finding, solving, and operating). At client meetings, the interaction practices include the PPC employees drawing upon operand resources (e.g. client references and previous cases) in order to represent the operational practices. To communicate the proposed value to the customers, the paper provider frequently organizes the interaction practice of the "customer event" where presentations are made. Information and knowledge about product-related issues represent the operant resources integrated into this interaction practice.

Manage-ment and organiza-tional practices	Organizing practices (meetings, workshops, forming cross-disciplinary teams, budgeting, conferencing, reference group meetings)	Organizes the work of providing and representing value propositions.	The spa hotel: "We have these big meetings, where we get information about overarching plans and about these weekend training groups that we host. For example, preparations prior to *Vasaloppet* [a 90k cross-country skiing race], biking, and yoga. These [the meetings] are important when it comes to treating them [the customers] well." (Fitness staff)	The example from the spa hotel suggests that the organizing practice of internal cross-functional meetings is essential for integrating resources, provision, and representational practices in order to offer an attractive value proposition to the customer.
			PPC: "Well, have you taken part in all these work groups and analyzed the problems using breakdowns? For instance, in a group, collecting and documenting and analyzing the potential reasons? For instance, noting all things down systematically so they can be found afterwards. For instance, on that wall there, so that this group went through this problem and these types of reasons were found—this must be systematic, documented work. When there's a problem, it will be taken up by a workgroup, identifying the reasons and documenting them." (Service development manager)	The PPC service development manager is discussing with the project group members how PPC can organize work (problem-finding and problem-solving practices) in groups in a more systematic manner, in order to live up to the value proposition (making the client's manufacturing process more efficient). The service development manager suggests that arranging the activities within and across meetings could help improve the value proposition. Thus, the organizing practices involve bridging separate problem-finding and problem-solving practices.
			PPC: "Well, in the steering group, we have people from the development groups who are able to present ideas, but the steering group has the decision-making power. Then the steering group decides on fees and approves the action plans. Then the management meeting is held in March/April, meaning that our regional manager arranges a meeting with the client factory managers, at which they also raise these production issues and collect feedback from the factories. Well, actually, before this meeting, the development group will have taken care of certain tasks, and the project results will be inspected here in March/April, looking at how well the project has succeeded and agreeing on what is to be done during the rest of the spring. The next meeting is in June, before the vacation period, and at that point, the steering group inspects project development and results, possibly setting new goals or directing development for the rest of the year." (Project manager)	The PPC project manager discusses how the project work (operating practices) is organized and how work is divided among the staff members, including responsibilities between bodies/members and the scheduling of tasks. The different organizing practices drawn on to accomplish this (steering group meetings, managerial meetings, etc.) are linked together into a project. Simultaneously, the meeting is designed to enable the realization of the value proposition (to make the client's production process more efficient).
	Staffing and team building practices (creation of a "dream team," competence mapping, teamwork,	Used to hire staff and build teams that can provide and communicate service.	Adult habilitation: "We work together in inter-disciplinary teams… we help each other to evaluate the client. Often, the problems are quite complex. From the start, it's hard to see which profession and knowledge that will be needed, which is why teamwork facilitates carrying out this work." (Nurse) The bank: "There are five of us in my team… We're a part of private banking… due to our competencies, we're able to handle slightly more complicated matters, like trading in stocks." (Senior	These examples illustrate the fact that team work is a practice that integrates the operand resources (e.g., "profession and knowledge" and "competencies"), provision practices (e.g., "we help each other to evaluate the client," a form of problem-finding practice, and "trading in stocks," an operating practice), in such a way that an attractive value proposition can be offered to the customer.

employee involvement, recruiting)		private banker)	
Networking practices (similar to those under organizing practices, e.g., meetings, committees, workshops, but they are shared via a network)	How firms involve members of their network to create, deliver or negotiate value propositions.	PPM: "Together with other businesses, we offer our customers different kinds of training. We have customer-specific events and then, together with other industry suppliers, we give presentations on a certain topic. And I think that's great because then you [as a customer] get one answer from there [from one specific supplier knowledgeable in his area], but the other one from here [from another supplier knowledgeable in his area], so maybe you get a more holistic view of the whole issue. So, the knowledge these types of events deliver is the value we deliver." (Technical service manager)	Offering collaborative training events together with industry suppliers is a form of network practice that the paper provider jointly arranges with other suppliers. The purpose of these training events is to support the customer in realizing the value proposition. This networking practice integrates different but related areas of expertise (operant resource), provided by several suppliers, in customer problems and needs.
		The bank: "We collaborate with several other asset management companies, both on the national and international levels, and the idea is that we give independent investment advice or recommend the best funds independent of a fund management company." (Senior private banker)	The bank's value proposition aims to benefit the customer in financial terms. Hence, when giving investment advice, the financial advisor should utilize the bank's network of asset management companies and draw on personal knowledge in order to recommend (operating practices) the best fund at that moment.
		Advertising agency: Consultant 1: What do you remember? What was the role of this company [the media agency], that they make the radio ad and the net, or…?" Copywriter: "But what were they, in fact—the nice videos or whatever there was, or…?" Consultant 2: "But who is going to make them?" Consultant 1: "But they [the client] haven't even briefed the media agency yet… There is kind of a danger that… Because I would like the media agency to have a similar starting point [as we do]… Because they can brief whatever, and we have our presentation on Wednesday, and they [the media agency] may have come I don't know how far." Consultant 2: "Well, our presentation is on Wednesday, and they will brief us on Friday, so this [our ideas] will have time to influence that."	This citation shows how the advertising agency staff, during direct observations, try to align their value proposition with the value propositions of another network actor (media agency) that is taking care of the web and radio campaign for the client. While doing this, they are trying to make sense of how the other actor influences the ability of their value proposition to support the client's value creation (helping him to communicate better with his customers).

Knowledge-sharing practices (training, sharing best practices, establishing consensus across groups, and human interaction)	Practices used to share knowledge and skills in order to realize the value proposition.	The spa hotel: "Competence development is very important in order for a gym instructor to be able to serve the customer well. Usually, it's the responsibility of each instructor to keep himself/herself up to date, and I must say that they really are up to date… they go to conventions, talk to other instructors, find things out, talk to the designers of workout programs." (Gym team leader)	The example from the spa hotel shows how important on the job training, a form of knowledge sharing practice, is when it comes to customer contact personnel being able to realize provision and representational practices, and the resources these integrate.
		The bank: "Branch office managers meet once a month to share information and knowledge between the branches (as regards how they work with customers), so that each office, if it faces a problem, doesn't have to reinvent the wheel." (Branch office manager)	The citation from the bank shows how internal knowledge sharing at meetings reinforces the value proposition offered to customers across the organization. This is a preventive "backstage" practice that supports operating and representational practices conducted during front-stage customer interactions.
		PPM: "We [my team] have two meetings per year with our colleagues from France and Spain, when we exchange best practices." (Technical service manager/customer complaints manager)	Exchanging best practices as regards solving customer problems is a knowledge-sharing practice that the technical service unit draws on in order to support the value proposition.

Table 3: Service Innovation Types

	Resources	
Practices	Existing (slightly modified)	New
Existing (slightly modified)	1. Adaptation	2. Resource-based innovation
New	3. Practice-based innovation	4. Combinative innovation