

# **Service Innovation Viewed through a Service-Dominant-Logic Lens: A Conceptual Framework and Empirical Analysis**

Andrea Ordanini<sup>1</sup>

A. Parasuraman<sup>2</sup>

<sup>1</sup> Associate Professor, Department of Marketing, Bocconi University, 20136 Milan, Italy;  
ph: +39 02 58363623; [andrea.ordanini@unibocconi.it](mailto:andrea.ordanini@unibocconi.it)

<sup>2</sup> Professor & Holder of the James W. McLamore Chair, Department of Marketing,  
University of Miami School of Business, Coral Gables, FL 33124-6554;  
[parsu@miami.edu](mailto:parsu@miami.edu)

## **EXECUTIVE SUMMARY**

Current knowledge about the determinants and effects of service innovation is based primarily on research conducted in physical-product contexts. But are services merely a special form of products and to what extent do research-based insights from traditional new product development carry over to service innovation? In this paper, using the tenets of the emerging Service-Dominant Logic (SDL) as a foundation, the authors propose – and empirically examine and verify (in the context of luxury hotels) – an integrative framework for understanding the organizational antecedents and performance consequences of service innovation.

Findings from the authors' study have several implications for new-service development. First, collaborating with customers and collaborating business partners both contribute to service-innovation effectiveness, but in different ways: customer collaboration increases innovation *volume* (i.e., number of service innovations), but not *radicalness* (i.e., how different the innovations are from current offerings); the reverse is true for business-partner collaboration. Furthermore, the findings suggest that the salutary effect of customer collaboration on innovation volume is significantly stronger when service firms collaborate with business partners as well than when they do not.

Second, contact employees emerge as the most powerful service-innovation driver, capable of influencing both volume and radicalness of service innovation. Thus, frontline employees are a critical – and frequently underutilized – resource that service managers can draw upon to enhance the effectiveness of their service innovation efforts. By the same token, service managers should be aware innovations involving the customer-

employee interface that are introduced in a top-down fashion, without direct involvement of contact personnel, are likely to carry a high risk of failure.

Third, the findings suggest that a service firm's overall orientation and culture play a strong role in shaping the outcomes of its innovation efforts. Specifically, to improve innovation effectiveness service managers need to foster a simultaneous focus on a customer orientation and innovative orientation. Service innovation activities are likely to be most productive when firms are able to focus on their current markets and customers and, at the same time, encourage the development of new service concepts with an eye to the future. Service managers should foster an organizational culture that not only emphasizes acquisition and use of market knowledge but also allows sufficient freedom and flexibility to challenge or even move away from it.

Fourth, the study results reveal that the two types of innovation outcomes – volume and radicalness – have different downstream effects on service firms' financial performance. Pursuing an innovation strategy that focuses solely on increasing the number of innovations is likely to contribute to sales growth, but not to increased profitability. The radicalness of service innovations is the key determinant of profit growth. The results also show a *synergistic* effect of innovation volume and radicalness on profitability—namely, the positive impact of radicalness on profits becomes stronger as the number of innovations increases. Thus, depending on the nature and thrust of a service firm's ultimate financial objectives, the findings offer insights for formulating and supporting an appropriate innovation strategy for achieving those objectives.