



Service Science

Publication details, including instructions for authors and subscription information:
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To cite this article:

Emmanuel Fragnière, (2009) Editorial Column—Service Innovation: Is it Part of the Service Science Discipline?. Service Science 1(3):i-iii. <https://doi.org/10.1287/serv.1.3.i>

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Editorial Column

Service Innovation: Is it Part of the Service Science Discipline?

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The Taylor organizational model, which originated in the industrial world, no longer has a place in today's service sector. In fact, the modern service sector is actually less standardized, and has begun to incorporate specific expertise and skills more and more heavily. This evolution supposes a different organizational model that relies more on creativity and on "implicit knowledge," which is the essence of expertise. This new organizational model, which is starting to be sketched out in certain larger service enterprises, has yet to be fully created.

Which organizational conditions favor service innovation?

Service enterprises have largely based their organizational models on those from the manufacturing and industrial sectors (e.g., incorporating hierarchy, task repetition, and standardization of procedures). However, these types of models are no longer relevant in today's service economy, which is undergoing radical change. We would like to demonstrate how expertise and creativity have become essential to today's value-added services. We argue further that they cannot be fully deployed if an organization is too rigid.

Taylorism – Has it run its course?

The "Taylor" model, first instituted in the industrial arena, calls for standardizing and simplifying tasks, and emphasizes repetition. This has been the standard in the service sector. However, we posit that today it has reached its limits. We are witnessing a deconstruction of how the service sector operates, but without a clear understanding of what will take its place. Sociologists predict that we are now returning to a time of "artisanship," in which producers have reached a level of expertise that allows them to master all the steps of the production process.

Knowledge, the key to superior service

Knowledge, or know-how, is the primary source of superior service. We divide it into two main categories:

- Explicit knowledge (which can be clearly classified and is codifiable), and
- Implicit knowledge (such as expertise or experience, which is harder to classify and can be somewhat amorphous).

Over the long term, we predict that the services that provide the most value-added will be based on expertise, or on implicit knowledge. Transmission of skills and expertise is likely to be performed by adopting some traditional models and utilizing human relations. And, when we speak of deconstruction, we are conscious primarily of the changes that are taking place within service production, but again without knowing how they should ideally be organized. Service enterprises need to determine what conditions will be needed for their continued viability.

The problem of pricing

The question of pricing is essential to analyzing the system of service production. Pricing directly impacts how the service is positioned, and influences equally how clients and coproducers will interact.

When a service is intangible, it is especially important to make some elements of production visible so that clients can clearly identify the value-added. Training, simulation, and role-playing can greatly assist in illuminating the tangibility of a particular service.

Risk management is another concept that has become fundamental in the service world. A poor reputation for service in only one part of a company can damage the reputation of the entire enterprise. However, service enterprises often have insufficient processes in place to adequately control risk.

The production and delivery of services are intangible, which makes controlling and managing all the variables difficult. Sound decision-making on the part of management can make all of these tasks easier to handle and more transparent.

Service production or delivery is much more dynamic, and involves a much greater degree of heterogeneity and intangibility, than goods production. The production of goods is also characterized by simultaneity, and can be hampered by the problem of perishability. “Low-cost” services versus services requiring a high level of expertise.

One habit that was largely inherited from industrial organizational models is that the service sector tends to develop low-cost service models in which production conditions are made possible by the Taylor model.

The paradigm of the price/quantity economic model cannot be fully realized in the service world, however. Quantity is replaced by the idea of intensity, which naturally impacts the production model.

Services that involve a high level of expertise usually have higher costs. And we often find that some aspect of the production is delegated to the client – with no accompanying diminution in price, however. For certain services – such as wedding planning, for example – clients are even more prepared to “pay through the nose,” despite being involved themselves in the production.

The consequences of standardization

It is still commonly believed – falsely, however – that a very expensive service cannot be standardized. However, standardization can be conducted without any loss of quality if special attention is paid to maintaining the spontaneity, the autonomy, and the “humanity” of the one who delivers the service.

In the plan for the service experience, point-of-sale marketing plays an essential role. Unfortunately, within the Taylor model, it is often the youngest and least experienced who are charged with directing these efforts. Managers may less concerned with point-of-sale efforts because they are less standardizable, and may therefore not give enough time to either the manner in which the service is sold, or the difficulties that must be overcome.

The standing or social status that is associated with a particular service experience is equally important. Here we find that the “Taylorization” of production has actually contributed to the degradation of its successful performance. For example, in the best restaurants, risk management is handled primarily by the chef: He interacts with the customers every day, and his expertise allows him to anticipate any potential problems quickly. Within a Taylorized model of production, this would not be possible.

Service based on knowledge and expertise

A service plan based on know-how and expertise depends on the following:

- A thorough and clear understanding of the needs and expectations of clients.
- The ability to elaborate a diagnosis of client needs from limited information.
- The outline of a specific service proposal.
- Efficient use of delivery processes and of existing products (or product modules).
- A custom-made solution that incorporates perceived value-added (often referred to as problem resolution).
- A good client relationship.

Expertise should be transparent in each step of the process: Evidently, the “functional flow chart” of Taylorism was not created around this reasoning.

Productivity gains?

Theoreticians (e.g. Baumol) state that it is impossible to realize productivity gains in a service economy. This finding will likely need to be reexamined, however, as the prominence of value-added services increases, and the expertise of service providers becomes more important. On the other hand, we note that productivity gains can still be realized within standardized services.

Knowledge and skill transmission in the service sector

Generally, transmitting knowledge takes place in an implicit fashion, with formal meetings and on-the-job training. A service economy cannot escape – and will never be able to escape – this logic. Just as with certain artisanal professions, in service professions knowledge is also often passed from man to man. Ultimately, service know-how must be transmitted largely in an implicit fashion.

Service enterprises have become virtual prisoners to written instructions. There is an inordinate emphasis on documenting and describing procedures and their functions in detail. In certain enterprises, it may be considered possible to replace expertise with these types of written instructions. However, this can be dangerous, because without expertise, it is virtually impossible to maintain an acceptable level of quality.

This inflation of written information is not recent. Since the beginning of the twentieth century, researchers have noted that an “abuse of written communications” have been slowly replacing “verbal communications.”

At what price service?

Ultimately, we know that the price of a service influences how much consumers value it. For example, studies have found that students work harder at private schools that are more expensive. But the price of a service also influences the conditions of coproduction: Paradoxically, it appears that consumers accept high prices more easily if they are more involved in the production process.