



Principles of Using Service Innovations in the Economy

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Abstract: The article examines the concept and essence of service innovation, its importance and the services included in it. The role of service innovation in the economy, as well as the theoretical foundations of using service innovation, have been created.

Key words: innovation, service innovation, digital economy, innovative technologies, cost.

The current level of digitization of the economy makes it possible to organize mechanisms for collecting, processing and delivering basic and effective information to the place of use with minimal expenditure of labor, material and financial resources for the performance of these tasks. The increased attention to service innovation in the digital economy is reflected in the increasing number of publications in academic research and interest from various research disciplines. However, the concept of service innovation is broadly and loosely defined and needs further study and development. The definition of service innovation is particularly problematic because there is no common understanding of what it is and what it means. The theory underlying service innovation is still new, and it explains the vague and scattered definitions of the underlying concept. For example, this ambiguity can be seen in the interchangeability of new service development and service innovation [1]. In addition, the term service innovation is also used to recognize a new service, i.e., an invention that has not been successfully introduced to the market [2]. In addition, there are conflicting views on how new an innovation should be and how the value of newness should be assessed. By examining how different definitions of service innovation address these issues, the ambiguity of the service innovation concept can be analyzed. As mentioned above, in order to identify differences in the basic assumptions about service innovation, scholars Coombs and Miles [3]'s existing studies are divided into three perspectives: assimilation, demarcation, and synthesis.

The studies that use the assimilation perspective are the most numerous and the first studies focus on the impact of new technologies, which are considered to be the main drivers of service innovation. In terms of assimilation, the same theories and tools developed for traditional product innovation studies can be used to study and analyze service innovation by using and adapting them. An important assumption of this perspective is that the service industry is becoming more technology and capital intensive. The assimilation approach can be traced to the sectoral taxonomy of innovation by another economist, Pavitt[4], in which service providers dominate, in other words, service firms are passive receivers of innovations from other sectors.

The demarcation perspective, on the other hand, suggests that service innovation is fundamentally different in nature and character from product innovation. This perspective challenges the theoretical foundations of innovation studies and argues for new service-specific theories and concepts to understand and analyze service innovation. Demarcation researchers argue that innovation research has failed to recognize the unique characteristics of services and overlooked the important contribution services make to products. In particular, demarcation studies highlight important elements that previous studies have overlooked. Research has highlighted specific characteristics of service outcomes and processes, such as the intangible nature of services, the



need for customer integration, and the contribution of organizational knowledge and non-technological elements[5]. Dreger has argued that one of the most important contributions of the demarcation perspective is the expansion of what can be considered innovation.

The synthesis perspective critiques the assimilation and limitation perspectives of service innovation. The main idea of this perspective is that theories of service innovation should be broad enough to cover innovation in services and production and should provide an integrative perspective that is not limited to technological innovation. Schumpeter's¹ view of service innovation emphasizes that economic development is associated with the emergence of new combinations (innovations) that are economically more favorable than previous solutions. Although all these perspectives clearly contribute to the development of the broad research field of service innovation, differences in conceptual definition and understanding of what service innovation is can cause confusion.

According to MacInnis² framework for conceptual contributions to marketing, the analysis involves differentiating service innovation perspectives. Such a distinction provides a typological framework that shows how the entities (definitions and articles) differ by revealing the main key features of different perspectives of service innovation. This study explores not only the distinctiveness of the three perspectives, but also their commonalities and whether new perspectives for service innovation can be identified.

In terms of assimilation, most articles describing service innovation used the term "innovation". This is in line with the tradition of taking insights and definitions from product innovation and using them in service research. Researchers using this approach did not recognize service as a distinct category; instead, they used the term "innovation" for products, services, and processes.

Viewing service innovation as a new service (offer) intersects the three perspectives of assimilation, demarcation, and synthesis. In terms of assimilation, "new" and "service" have the highest centrality dimensions in the full-text analysis. For demarcation and synthesis, "new" and "service" emerge as the most central features in definitions (rather than full-text analysis). Interestingly, the word "new" was used several times on average in each definition. It seems that the most common interpretation is to define service innovation simply as a "new service", and every firm develops some degree of innovation and service innovation.

However, viewing service innovation as a new service is not unproblematic, as "new" is a relative concept. A greater emphasis on novelty means radical service innovation, and novelty means new to the firm, new to the market, or new to the world. The conceptualization of service innovation must go beyond the scope of the new service for the firm and put the true meaning of the characteristic "new". By emphasizing innovation, researchers and managers can determine what organizational activities are needed to foster radical service innovation.

A systematic review of existing research on service innovation contributes to the understanding of what service innovation is. Previous service innovation literature reviews have conducted qualitative or descriptive analyzes of the literature on new service development. Using network analysis and full text learning, it makes a number of important contributions to the theoretical understanding of service innovation, namely:

First, most of the research on service innovation has failed to define the underlying concept. Although there is some common view of service innovation as a "new service," this is not a

¹ Flikkema M., Jansen P., & Van Der Sluis, L. (2007). Identifying Neo-Schumpeterian Innovation in Service Firms: A Conceptual Essay with a Novel Classification. *Economics of Innovation & New Technology*, 16(7), 541–558.

² MacInnis D.J. (2011). A Framework for Conceptual Contributions in Marketing. *Journal of Marketing*, 75(4), 136–154.



sufficient definition, suggesting that all firms develop service innovations. It is not productive to claim that all firms are innovators, whether from a theoretical, practical or policy perspective, because it does not help us understand how innovation can help build brands, firms or societies. For example, innovation in terms of assimilation often means "radical technical innovation"; in terms of demarcation often means "small process adaptation" for the firm; in terms of synthesis, it often refers to the skills of developing new services. Sharing an overview of service innovation enables theory building and research to better utilize service innovation in further empirical research;

Second, this study identifies key features in the definitions of service innovation from each perspective. Product and process are present in definitions from all three perspectives, but have proven to be insufficient for understanding service innovation. In addition, definitions of service innovation from each perspective also highlight specific key characteristics. Definitions from the demarcation perspective introduced the firm-customer dichotomy, while definitions from the synthesis perspective began to emphasize value. By introducing new key features in the definition of service innovation, service research has contributed to an expanded perspective on what constitutes innovation;

Thirdly, Schumpeter clearly showed the difference between the development process, result and commercialization of innovations. However, this distinction appears to have disappeared in current research following a delimitation or synthesis perspective on service innovation. These two perspectives often include a developmental process that defines the concept of service innovation. By changing the focus from exchange value to use value, the commercialization process is ignored. Although this allows service researchers to identify new characteristics of service innovation, it hinders further theoretical development because it does not help explain why some new services are successful, etc.

Different perspectives of service innovation can explain the content and emergence of different innovations. Companies must balance their innovation efforts. In this classic dilemma, companies must make a trade-off between exploitation and exploration or incremental and radical innovation if they want to survive. Service innovation adds a new dimension to the balancing act, and as discussed above, multiple perspectives are necessary to understand how success can be achieved with service innovation.

The digital economy is a huge potential for innovative development, organization of goods, services and labor market, financial assets and payment systems on an innovative basis. Digitization makes a significant contribution to sustainable economic growth, increasing the competitiveness of the basic and innovative sectors of the economy, improving the quality of life of the population, and also allows our country to occupy high places in the world ranking. This requires a combination of technological and service innovation, as innovative service systems are at the heart of these challenges. Service innovation is not a luxury or an exaggerated need, it is the basis of our social and economic well-being. As a result, we can conclude that new ideas in the service stimulate the comprehensive development of the industry, its attractiveness and profitability. Innovations in the service sector can be aimed at both expanding and limiting the exchange of experiences between service consumers and service organizations.

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