

# The Emperor's New Clothes? Surveying Innovation in Services

Susan Alexander  
Minerva Research  
Luxembourg  
[salexander@minerva.lu](mailto:salexander@minerva.lu)

# Overview

- **It is an article of 21<sup>st</sup> century faith that the return on investments in intellectual capital, whether on an organisational, regional or national level, is innovation, which results in profit and prosperity.**
- **Tracking innovation is thus one way to measure the effectiveness of intellectual capital.**
- **Traditionally, both intellectual capital and innovation indicators favoured the manufacturing sector and did not deal adequately with innovation in the services sector. Examples include tracking the numbers of patent applications and scientists employed, neither of which measures innovation in financial or transportation firms.**

## Overview (cont'd)

- **Convinced by what historian Walter Laqueur calls “the false dawn of 2000” (Laqueur, 2007) that the future lay in Europe’s ability to innovate, the EU formulated the Lisbon Strategy.**
- **Also initiated in response were new definitions of innovation, new innovation indicators and new survey approaches.**
- **However, reviewing the results of such efforts, the author asks whether there is a not danger of this becoming a case of “the Emperor’s new clothes”—that despite all the efforts to include services in innovation surveys, the outcome is not obvious and many issues remain.**

# New Definitions of Innovation

- **The most recent revision of the Oslo Manual (OECD, 2005), focuses on including services in innovation.**
- **The Manual recognises four main types of innovation:**
  - **Product innovation**
  - **Process innovation**
  - **Organisational innovation**
  - **Marketing innovation**
- **In addition, although the innovation must be novel to the firm, it can have been acquired through the process of diffusion (OECD, 2005).**

# Evolution of Innovation Surveys

- **Four stages in the evolution of innovation surveys to include services have been noted by Kanerva et al. (2006) and Drejer (2003).**
- **Indifference.** As noted by Kanerva, before the 1980's, services were not considered to be innovative and thus did not need to be included in surveys.
- **Subordination/Assimilation.** Indicators to identify innovation in the manufacturing sector are applied to services, with a focus on technological innovation.

# Evolution of Innovation Surveys (cont'd)

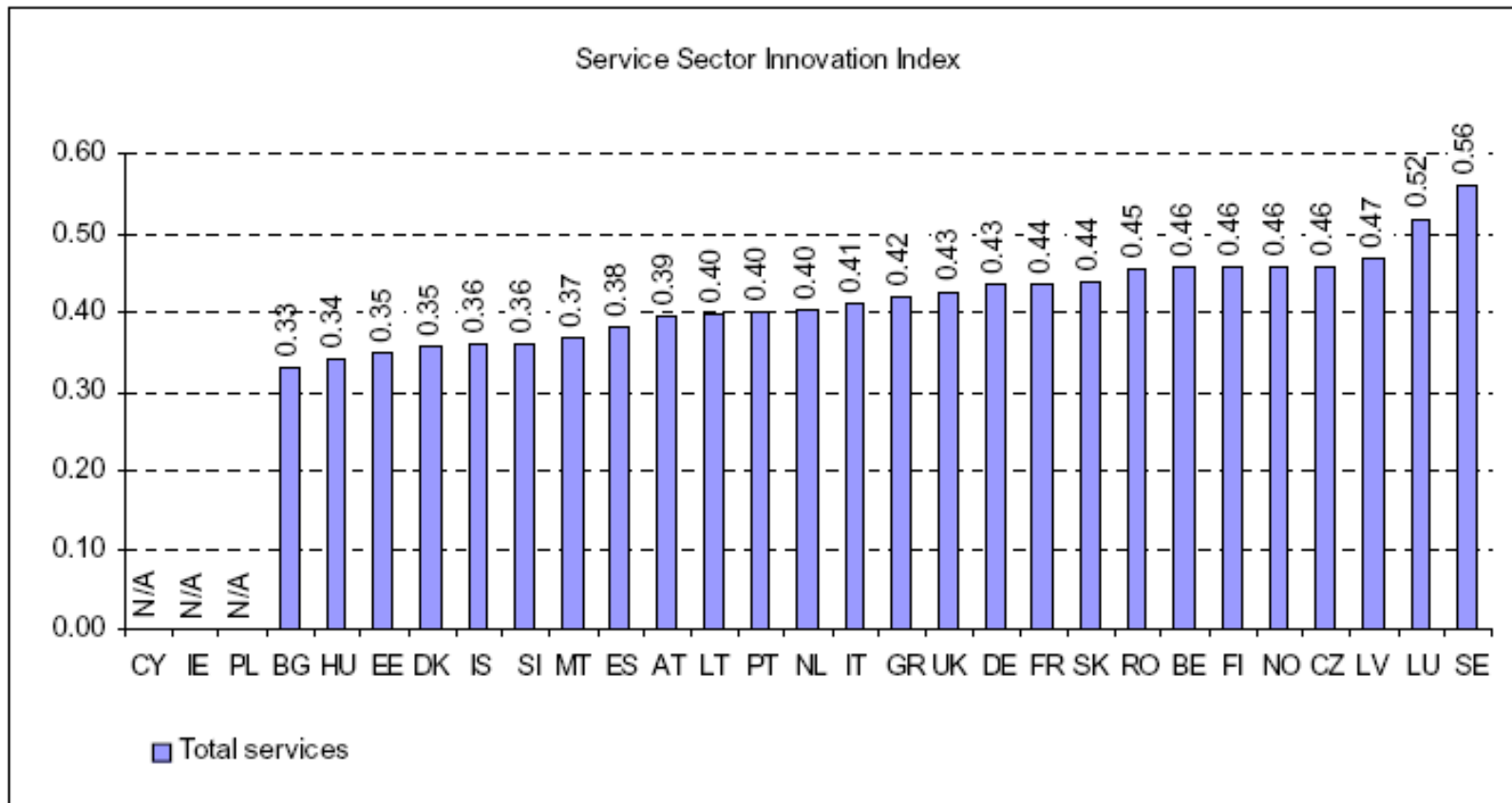
- **Autonomous/Demarcation.** Indicators apply strictly to services firms. No attempt is made to compare innovation in services with innovation in manufacturing. However, results suggest that while there are differences in innovation, there are also similarities between manufacturing and services.
- **Synthesis.** The most recent development in innovation surveys, this approach assumes differences between manufacturing and services are more a matter of degree and views innovation from a very broad perspective. The study of Kanerva et. Al (2006) is an example of a synthesis approach.

# "Damn the torpedoes, full speed ahead!"



- **Said by Admiral David Farragut at the Battle of Mobile Bay in 1864, it applies when risks are ignored in the rush to take action. Note: He won.**
- **For the 2006 TrendChart Workshop on Innovation in Services, Kanerva et al. of MERIT went full speed ahead in a pioneering study to measure innovation in services.**

# Service Sector Innovation Index



From Kanerva et al. (2006).



# EIS/SSII Results Comparison

Country	EIS Rank	SSII Rank	Country	EIS Rank	SSII Rank
AT	13	18	IS	21	14
BE	14	7	IT	21	14
BG	32	26	LT	25	17
CY	23	NA	LU	8	2
CZ	19	4	LV	29	3
DE	6	11	MT	24	20
DK	4	6	NL	11	15
EE	20	24	NO	17	5
ES	22	19	PL	30	NA
FI	3	6	PT	28	16
FR	12	10	RO	33	8
GR	-	13	SE	1	1
HU	26	25	SK	27	9
IE	15	NA	SL	18	21
-	-	-	UK	9	12

# SSII Analysis

- **Kanerva's study uses the *synthesis* approach, employing 22 indicators from CIS, plus business R&D and ICT expenditures.**
- **Some significant differences in rankings between EIS and SSII could reflect problems with the synthesis approach and/or subjectivity of indicators.**
- **It is, however, more likely the differences suggest that manufacturing innovation requires both accumulation of knowledge stocks and knowledge flows, while services require mainly knowledge flows that allow "rapid leap frogging to best practice."**

# The Le Pen Effect



- In the recent French election, LeMonde reported problems with the accuracy of polling results.
- People knew it was "politically incorrect " to support Le Pen and therefore told pollsters they were going to vote for another candidate, thus skewing the predictions.

# The Reverse Le Pen Effect

- **Data used in innovation indicators often comes from questionnaires completed by the enterprises themselves.**
- **Enterprises know it is "politically correct" to be innovative. Therefore, when asked if they are innovative, enterprises tend to say, "Yes."**
- **This tendency is compounded by "social contagion" among organisations. Diversifying, downsizing, re-engineering, adopting matrix management, abandoning matrix management, outsourcing, offshoring, all may be more imitative than innovative and not necessarily result in economic growth. (e.g., Greve 1995, Haveman 1993, Burns & Wholey 1993).**

# The Schumpeter Principle

- **Schumpeter, famed for his concept of “creative destruction”, defines innovation simply as an *economically successful* introduction of something new (Schumpeter, 1934).**
- **The coupling of economic results with innovation is largely lacking in both indicators and surveys.**
- **National rankings tend not to look at linkages between innovation and economic growth, GDP per capita, productivity gains, etc., nor corporate analyses at linkages between patent and trade mark registrations and profitability.**

# Why It Matters

- **Extent of Services**  
**In the U.S., as of 2000, 75% of employment is in services.**  
**In Luxembourg, 68.7% of GDP is from services.**
- **Public Policy Effects**  
**Countries react to surveys and implement public policies based on their results.**  
**Luxembourg, for example, uses the EIS as an official "instrument of economic policy".**

## Direction of Future Inquiry

- **Drejer identifies the importance of “information networks” as well as collaboration with both suppliers and customers in service firm innovation (Drejer, 2003).**
- **The Oslo Manual draws attention to the importance of diffusion to different users, enterprises, markets and regions required by an innovation to achieve economic impact (OECD, 2005).**
- **These observations suggest that applying a complexity/systems approach to studying innovation in both services and manufacturing could be productive.**

# Conclusions

- **The full inclusion of services in innovation surveys is long overdue and current initiatives, despite their limitations, should be continued.**
- **Definitions of innovation still need further work, especially as the line between product and service continues to blur.**
- **Surveys should include indicators to capture the economic impact of innovation. This will help correct for any reverse le Pen phenomena, organisational trend following and frivolous trademark registrations, org. chart reorganizations, etc.**