Managing service innovation: firm-level dynamic capabilities and policy options

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Randstad’s business model of innovation: results from an exploratory study in the temporary staffing industry

This chapter is based on Hertog, P. den & de Jong, G. (2007), Randstad’s business model of innovation: Results from an exploratory study in the temporary staffing industry, Innovation: management, policy & practice, Vol. 9, No. 3-4, pp. 351-364, reproduced with permission from eContent Management Pty Ltd. I am particularly indebted to my co-author Gjalt de Jong. The case in this chapter is one of the set of 20 described in the preceding chapter. Section 2 was already included in chapter 2 in a more extensive form but has been kept here to show the integral text of the paper.
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Abstract

Official statistics suggest that European service corporations seem to be ignoring the importance of R&D and innovation activities. It is worthwhile to look at whether and how European service companies innovate in order to reap the associated benefits. In this article, we will introduce the Randstad model of corporate service innovation, showing how their particular innovation strategy, structure and decision-making processes help to develop learning capabilities that have fostered this company’s long-term competitive advantage. And what lessons are to be learned from the Randstad example that could assist the implementation of the model in other organizations.

5.1 Introduction

Despite the increased importance of service innovation for the economy, we know surprisingly little about the drivers, strategy, organization and decision-making culture of innovation processes within service companies. This study explores these features of service innovation in detail. The core of this article is the introduction of the Randstad model of service innovation in the temping industry. This company offers a benchmark concept of corporate innovation by illustrating how the balance between strategy, structure and decision-making processes can be shaped in the context of large service enterprises without sacrificing long-term performance.

Many advanced countries have been moving away from agriculture and manufacturing towards information, knowledge and service economies. Services are ubiquitous and form the key to the much needed productivity growth of many developed economies (Howells, 2004; Van Ark et al., 2000; Inklaar et al., 2007). Market services alone, for example, account for 45 to 55 percent of the total value added in most OECD countries and the overwhelming majority of all European employees work in service companies (European Commission, 2003; 2005). Hence, the competitiveness of service companies is crucially important for the economic growth of advanced nation states. Innovation and/or research and development within service companies – and across service companies in ‘systems of innovation’ (Metcalfe & Miles, 2000) – are key to achieving a sustainable competitive advantage (Cainelli et al., 2006; Dodgson, 2000; Verspagen, 2005; Pillat, 2001); the more so as services are becoming increasingly tradable and therefore subject to international competition (Mankiw & Swagel, 2006).

There are many good reasons why service companies need to innovate (Sundbo & Gallouj, 2000; den Hertog, 2000). From a corporate perspective, the aim of innovation is mainly instrumental, delivering increased efficiency and productivity as well as access to new markets and clients (Ozdemir et al., 2007). It is apparent that market situations
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and competitive structures are subject to constant change and that the pace of dynamic innovation has accelerated unmistakably. Against this background of increased competition, successful companies no longer try to achieve decisive advantages through cost leadership or advances in quality or technology alone (Foss & Knudsen, 1996; Peteraf, 1993; Conner, 1991). They tend to differentiate themselves through innovative services that give them a decisive unique selling proposition compared with their competitors (Barney, 1993; Dahlgaard & Dahlgaard, 1999; Sharma et al., 2005; Tether et al., 2001). Thus, innovation allows service companies to continuously offer enhanced or new services in the market and be quicker than the competitor. They are therefore better able to find and produce new opportunities and reap the associated benefits. We will associate this proposition with our case company, i.e., Randstad.

Surprisingly, however, many service companies seem to ignore the importance of innovation and/or R&D for the performance of their corporation (Van Ark et al., 2003). Official statistics suggest that relative to their economic performance, service sectors only account for a small share of total R&D (OECD, 2005a; 2005b). The average R&D intensity tends to be much lower in services than in manufacturing. Although not all service sectors are the same – and the intensity to engage in innovation and R&D varies between service sectors – the statistics nonetheless indicate that service companies find it difficult to create new products and services. To some extent, we can explain the less optimal innovative performance of service companies in the official statistics. It is argued, for example, that service companies are more inclined to invest in various forms of organizational (‘soft’) innovation rather than in (technological) R&D – that often aims at technological (‘hard’) innovation – and for that reason are not covered in the statistics. This is confirmed by case study research (Boden & Miles, 2000; Gallouj, 2002; Gallouj & Weinstein, 1997; Howells, 2001; Metcalfe & Miles, 2000; Sundbo et al., 2007). Service companies associate R&D mostly with technological R&D (den Hertog et al., 2003). R&D is less associated with creating new services or new service development. This implies that, in practice, important services’ R&D and innovation activities are hidden behind labels such as business development and service improvement without being recognised as services’ R&D (Howells & Tether, 2004; Tether, 2003; den Hertog, 2000).

Hence, the empirical evidence of innovation by service companies is mixed and therefore many questions still remain unanswered, most importantly, whether and how service companies are able to innovate and by doing so, achieve long-run competitive advantage (cf. Dodgson et al., 2005). The main research question of this study is ‘how do service companies develop and maintain successful R&D and innovation activities?’ We investigate the drivers, strategy, organization and decision-making culture of innovation processes within a service company in the temporary staffing industry to answer this question. Research on new service development usually focuses on particular sectors such as financial services (e.g. Ozdemir, 2007; De Brentani, 2001), transport (e.g. Nijhof et al.,
2002) and wholesale (e.g. Hart & Service, 1993). Innovation processes in the temporary staffing industry remain relatively unaddressed and we aim to fill this gap. The industry is also interesting because most of the leading industrialized countries have overall rates of temporary employment above 10 percent, with relatively high levels in European countries such as the Netherlands, Germany and France (OECD, 1999). Finally, it is a knowledge intensive business sector which is often highly innovative in its own right, as well as facilitating innovation in other economic sectors (den Hertog, 2000).

The outline of this article aligns with the structure of our research. First of all, we will provide an overview of core concepts and definitions that relate to service innovation (section 5.2). That is, we start our research with a review of previous work of service innovation in order to characterize and define service innovation. We use these insights for the design of our exploratory case study. Section 5.3 will describe our case study methods and introduce our case company, i.e., Randstad. Section 5.4 will report the case study results and will present the Randstad model of corporate innovation. The article concludes in section 5.5 with an appraisal of what can be learned from the case company in the context of the current quest for business models of innovation by service firms that strive for innovation and that need to adapt to the requirements of modern knowledge economies.

5.2 Services and innovation

During the past decades the research in services and services innovation has mushroomed (Dodgson, 2000; Tidd & Hull, 2003; Gallouj, 2002; Metcalfe & Miles, 2000). These studies offer a helpful point of departure for the design of our exploratory case study. Studies on service innovation have focused mainly on the conceptualisation of service innovation (Boden & Miles, 2000; Gallouj & Weinstein, 1997; Howells, 2001). These studies often characterize services as a specific economic activity that is distinctively different from goods producing activities – they stress the intangible nature of most services, the overlap of the moment of production and consumption, the non-storability and low tradability of services, and the strong user-producer links. For a long time, the definitions of services were dominated by Pavitt’s sectored taxonomy of technological change that primarily characterised service industries as supplier-dominated sectors (cf. Soete & Miozzo, 1989; Evangelista & Savona, 1998; Djellal & Gallouj, 2001). In a similar vein, the important theoretical contributions of Barras (1986, 1990) portrayed most service sectors as supplier-dominated, and as receiving an impetus from manufacturing in order to be able to embark on subsequent phases of innovation processes.

Our study aligns with the definition of Gadrey et al. (1995: 5-6) who suggest that:

\[
\text{to produce a service […] is to organise a solution to a problem (a treatment, an operation) which does not principally involve supplying a good. It is to place a}
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*bundle of capabilities and competences (human, technological, organisational)*

*at the disposal of a client and to organise a solution, which may be given to a varying degrees of precision.*

This definition suggests that not only technological, but also human and organizational capabilities are important for providing services. Additionally, the definition allows us to differentiate between highly standardized service products or service formulas with quasi good characteristics (such as fast food chains) and more customized services such as consulting or legal services. The latter category usually involves a substantial part of tacit knowledge and is often the result of the interaction between the service provider (producer) and the service receiver (client).

We can derive two conclusions from the service innovation literature. Firstly, it has been increasingly recognised that many services deliver a – sometimes substantial – contribution to innovation processes, that is, they are not merely passive recipients of others’ innovations. Secondly, the emphasis on technological innovation has been moderated. Innovation in services or in service functions represent multidimensional characteristics, which involve both technological and non-technological dimensions. The importance of non-technological elements has increasingly been acknowledged for service innovation. These achievements result in a better understanding of the peculiarities of services (Miles, 1993), service management (Normann, 2002; Quinn, 1992; Løwendahl, 2005), the role and importance of the interaction with clients (Kline & Rosenberg, 1986) and the recombination of existing elements in new services (Henderson & Clark, 1990). Today, it is widely acknowledged that innovations in services and manufacturing are equally important. Manufacturing firms increasingly use innovation in service functions in order to differentiate their products. Conversely, some business processes in service organisations increasingly resemble those in manufacturing.

Service innovation is seldom limited to a change in the characteristic of the service product itself. Innovation often coincides with new patterns of product distribution, client interaction and quality control. What is important for introducing one new product in a market might be totally irrelevant for other products. Offering a completely new service may differ considerably from offering an existing service using a new distribution channel. Figure 5.1 presents a conceptual model that maps the diversity of service innovations (den Hertog, 2000). This model distinguishes between one technological and three non-technological dimensions of innovation.

The conceptual model represents four different dimensions of service innovation. The first dimension is the new service concept. Low-cost or ‘no-frills’ airlines are an example of these ‘conceptual innovations’. Manufactured products are typically highly tangible. This is often not the case with services. Service innovations may be embedded in a tangible product (such as ATM) but the innovation itself is often a new idea or concept of how to
organize a solution to a problem. There is an ongoing debate on the ‘newness’ of many service innovations but this applies to ‘new’ manufacturing products as well and is part of this line of research. Services can be new to the providing firm; the regional, national or international market; or the client. The level of novelty in service innovations differs; although a particular service concept may already be familiar in other markets, the key thing is that it is novel in its application to a particular market.

The second dimension is the client interface. The various generations of electronic banking (from the introduction of ATMs to the use of mobile phones) in banking is an example of an innovation where the ‘client-interface dimension’ is dominantly present. Not only did electronic banking change the way services are offered and how we interact with our banks, it also introduced a considerable degree of self service as most of the data entry is now in the hands of final consumers. Clients are often part and parcel of the production of the (new) service. The interaction process between the provider and the client is an important source of innovation – the more so when the business service itself is offering support for innovation (which, for example, is the case in R&D or design services). The higher the degree of co-design or co-production of services, the more difficult it is to locate the prime source of the innovation.

Figure 5.1  The four dimensional model of service innovation\textsuperscript{99} (Source: Hertog, P. den (2000) International Journal of Innovation Management 4: 491-528).

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\textsuperscript{99} How we derived at the 4D-model and later 6D-model is discussed in subsection 1.3.2 en section 6.4.
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The third dimension concerns the in-house service delivery system and organisation. It refers to the organisational structure of the service company itself; appropriate management and organisation is needed to allow service workers to perform their job properly, and to develop and offer innovative services. New services, for example, may require new organisational structures, (inter)personal capabilities or team skills. The large-scale introduction of home shopping services is an example of the ‘delivery system and organisation dimension’ of service innovation.

The fourth dimension, technological opportunities, has caused much debate in the service innovation literature. Service innovations are of course possible without technological innovations but they often go together. IT can facilitate or enable but likewise constrain service innovations. Tracking and tracing systems are examples of ‘technological innovations’: they enable transport service providers to monitor the progress of their fleet and thus manage their transport service more efficiently.

Apart from the importance of these four dimensions as separate innovation vectors of change, the linkages between the vectors may be of even more significance. Often these cross-linkages are forged in practice by those responsible for marketing, organisation development and distribution. For instance, launching a new service concept (for existing or new clients) requires marketing expertise. Similarly, creating an adequate interface with clients, and adapting the service delivery system, requires knowledge of how services are distributed (both in terms of where they are produced and of how they are delivered). The decision as to whether to develop new services also requires organisational knowledge. Hence, a particular service innovation may be characterized by one dominant feature related to one of the above-mentioned dimensions. This particular feature will often prompt a set of changes in other dimensions, in order to bring about a successful innovation.

To summarize, any service innovation will most likely involve a combination of all four dimensions. A completely new service, for example, will imply that a new service delivery system will have to be developed, employees will need to change their tasks and work relations with their clients, and existing IT applications and business processes be adjusted. The weight of the dimensions, as well as the interactions between them, will vary across service innovations, services and firms. On the basis of the foregoing, service innovation can be defined as “a new or considerably changed service concept, client interaction channel, service delivery system or technological concept that individually, but also in combination, leads to one or more (re)new(ed) service functions that are new to the firm, change the service/product offered on the market, and require structurally new technological, human or organisational capabilities of the service delivery organisation.” (van Ark et al., 2003, p. 16).
This definition covers the notions of technological and non-technological innovation, but also the distinction between technological and non-technological aspects of innovation. This subtle but important distinction stresses the difference between the nature of the innovation itself and the characteristics of the innovation process and the organizations involved.

5.3 Method and case company

5.3.1 Research methods

This study can be characterized as an explorative type of research, and follows a case study approach. A case study is the investigation of a temporary empirical phenomenon within its real context (Eisenhardt, 1989; Yin, 2004). In this study, innovation is the phenomenon to be investigated, the service companies are the cases. Case research differs from other qualitative methods in that it involves numerous other data sources, some of which are quantitative. There are two major issues that lead to this choice, namely the research question and the depth of analysis. The main research question of this study is ‘how do service companies develop and maintain successful R&D and innovation activities?’ Case studies are particularly useful to answer ‘how’ questions because such questions are more explanatory, and do not aim to describe the incidence or prevalence of a phenomenon. Additionally, this study aims at investigating the development of innovation. Case studies are particularly suitable for this, because they allow for greater flexibility during the inquiry. In other words, when exploration rather than theory testing is the aim of a study, a qualitative approach is recommended instead of a quantitative one.

We used a combination of criteria to select the case company, namely business service sector, long-term successful financial performance and a substantial history in R&D and innovation activities. The case study is part of the Research and Development Needs of Business Related Service Firms (RENESER) project. This project is established by the European Commission’s DG Internal Market and Services. Among other things, the project is charged to undertake an examination of the apparent ‘underinvestment’ of European business service firms in R&D. We reconstructed the business model of corporate innovation based on four interviews we carried out in December 2005 with four management team members in combination with document studies (desk research). The documents included financial sheets, annual reports, minutes of (board) meetings and memoranda concerning R&D and business development strategies. We interviewed Randstad’s managing director concerning business concept development, the managing director for ICT systems, an account manager for key clients, and a member of the executive board of Randstad Holding. On average, the interviews lasted two hours. This enabled us to obtain detailed
information concerning strategic and operational issues in the development of new service offerings. The interviews were semi-structured. The semi-standardized interview guide was based on an extensive literature review (summarized in the previous section). A focused interview enabled a detailed study of the selected phenomenon.

In order to keep the focus, we developed a semi-structured questionnaire. To date, no theoretical model exists that allows the disentanglement of innovative business models. For this reason, we used three key aspects which are identified in the strategy and organisation literature as key determinants of company success: strategy, structure and process (cf. Pettigrew & Fenton, 2000). Hence, besides general company information, questions concerning the R&D and innovation strategy, function, organization, and decision-making processes were selected as the research focus. In the RENESER project we used various pilot firms to test the questionnaire. The case study was authorized by the case company. As stated, a case study methodology does not allow for testing causal relationships between variables under consideration. The research approach, however, does help to identify fine-grained processes and key characteristics underlying R&D and innovation activities in service companies such as Randstad, which is the purpose of this study.

5.3.2 Case company

Randstad Group based in the Netherlands is one of the leading staffing and human resources service organizations worldwide. According to 2006 figures, the company achieved € 8,186.1 million in revenue and € 360.3 million net income. It currently operates in 20 countries through more than 2,650 outlets. It is market leader in the Netherlands, Belgium, Germany, Poland and in the south-east of the United States. Its core competence is its knowledge of work and work-related processes and detailed understanding of the demand and supply of labour. In addition to offering traditional mass customized staffing services (for instance, via the Randstad or Tempo Team companies), Randstad has deliberately moved towards higher value-added services (or ‘specialities’) for which new service concepts and business models such as contract staffing, recruitment & selection, and permanent training are being developed. As such, Randstad is developing into a knowledge intensive business service firm. Despite its market leadership, Randstad operates in a competitive market with other large staffing agencies such as Adecco and Manpower as well as numerous small-scale local companies. As Randstad is moving up-market – e.g. through professional staffing and recruitment services or by offering outsourcing of HRM activities – it is also starting to compete with different types of competitors such as recruitment agencies (for instance, YER and Michael Page), interim management bureaus or ICT service companies. The latter may offer secondment of ICT personnel, but can also offer the outsourcing of HRM systems. However, probably its main competitors are business clients that employ personnel directly themselves.
5.3.3 R&D and innovation drivers

From our interviews we learned that Randstad is much more likely to think in terms of business development than innovation or R&D. But although R&D and innovation are therefore largely hidden, innovation and new services are important to Randstad. Important R&D and innovation activities are embedded in various activities ranging from optimising large scale administrative processes, business concept development, co-innovation with major clients and creating an open corporate culture in which ‘bottom-up’ innovations are valued and where needed adopted by senior management for further diffusion. In practice, innovation in an organization like Randstad means enriching, blending and customising the company’s core activities into well-defined and profitable service concepts that can be rolled out swiftly.

Furthermore, based on the interviews and desk research we identified various trends that affect the markets in which Randstad operates. They drive the services R&D and innovation taking place at Randstad. One trend is that of increasing service content and ‘higher customer intimacy’. In order to be able to offer more customised HR-related services, Randstad not only needs to become more knowledgeable about the labour market, but also about the markets in which their individual clients operate. Randstad has increasingly built up specializations geared towards certain industries and particular businesses. This often implies moving away from the traditional business model of selling hours of flexible work towards models based on taking care of certain service functions.

Another trend concerns the quality of front and back office work processes. Technological development is a key driver for ‘soft’ innovation at Randstad: it complements, supports or enables process-oriented, service delivery and organizational innovation. An important growth driver in the staffing and HR solutions industry is the quality of the administrative processes underlying the mass (customized) service offering. Apart from scale economies, standardization of processes is needed to administer the many individual candidates that

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work through Randstad channels at numerous client sites. Important sources of R&D and innovation are administration and ICT systems that create efficient back office (including knowledge management systems) and front office work processes for Randstad. These administrative and ICT systems can also help in realizing process innovations such as electronic billing systems, new front office systems or shared service centres. A final trend concerns the increasing deregulation of national and international labour markets that require Randstad to adapt to these. This also influences the development and introduction of new services and service concepts.

5.4 Business model of corporate innovation

From our interviews and desk research we have identified nine features that characterize corporate innovation by our case company. Table 5.1 lists those characteristics, which will subsequently be introduced below. The nine major features are clustered in three groups in line with the three key principles of successful organizations: strategy, structure and decision-making processes.

Strategy: non-formalized focus

1. Randstad’s formal strategy focuses on business development rather than innovation or R&D. Innovation is not the end but the means by which the company wants to develop its business. Randstad does not have a specific R&D budget. The company does not specify particular innovation targets or a strategic blue-print that pre-defines innovation activities.

2. Two strategic groups at the holding level, namely Strategic International Accounts and Business Concept Development, focus on new business (‘organic growth’) supported by innovation. Hence, in line with their corporate strategy, innovation and R&D are primarily induced by (prospect) client needs. Thus, the groups first identify these needs and afterwards initiate innovation projects with major (prospect) clients and by doing so, focus the Randstad organization on feasible innovation activities. This prevents first concepts from remaining diffuse ideas and not becoming innovations. They innovate for current ‘real-world’ existing challenges, not for potential future bottlenecks.

Structure: semi-structured organization

3. Ad-hoc (international and cross-divisional) project teams are organized if the need for a new service is detected. These teams of specialized Randstad consultants who have different backgrounds and experience, will develop and implement the dedicated solution. Randstad has a large pool of expertise and dynamically starts and ends project teams.
4. Randstad deliberately uses ad-hoc partnerships with major (prospect) international clients (‘co-innovation’) to develop new services. The partnerships with clients allow sharing the risks involved in developing new services and offer pilot opportunities to test these. The client has a first mover advantage from the new service vis-à-vis its competitors. Additionally, Randstad applies ad-hoc partnerships with universities and specialized research institutes to develop and maintain state-of-the-art knowledge concerning HR and labour market issues.

5. Randstad applies a funnel method to organise the overall process of new service development. In the first step of the funnel, concept business opportunities and good ideas are collected. With the use of a strict set of criteria (profitability, risks, scale opportunities, in-house adaptability), all new ideas are gradually reduced to a selected number of feasible candidates.

6. Randstad exploits successful innovation. Given that Randstad is a worldwide organisation, it continuously scans successful new services, selects best practices, describes them in great detail, standardizes these and – after approval – diffuses them as the standard way of working to those countries where these services are offered. The company replicates successful concepts across operating companies using existing front and back office capacities with the so-called ‘copy & paste strategy’. The toolkits give detailed plans for implementation, allowing adaptation options for different national cultures and markets. By using existing know-how, the launch and implementation of new concepts can be accelerated.

7. Portfolio management supports the ongoing monitoring and selection of approximately 10-20 innovation projects worldwide. The company keeps an explicit track record of failed and successful projects that is maintained by one dedicated executive board member.

**Process: embedded decision-making**

8. The adoption of a ‘bottom-up’ approach to innovation actively challenges all employees to step forward with ideas for incremental innovations and/or new service concepts. That is, almost all new ideas derive from the shop floor and/or in direct consultation with their clients.

9. Randstad management actively promotes an open and innovative culture. The organization is relatively flat with a non-hierarchical format. Employees on the shop floor or within the Randstad organization itself can easily make suggestions to the location or regional district manager. Randstad carefully selects and trains its own managers (approximately 80 percent of all managers have a Randstad specific career) as well as consultants and other employees via its company owned Academy. This ensures that the
greater part of management has a thorough understanding of Randstad specific business models and culture.

The service innovation triangle

We interpret our case study findings as follows. The nine key features of the Randstad model of corporate innovation can be integrated into what may be called the ‘service innovation triangle’ (see figure 5.2). Together, the three cornerstones – non-formalized strategic focus, semi-structured organization, and embedded decision-making processes – produce a system of checks and balances that safeguards innovation in a service company. A non-formalized strategic focus implies that the organization (a) is aware of the importance of innovation but (b) focuses its innovative activities towards new products without specifying these in strategic blue-prints. A semi-structured organization guarantees the smooth functioning of R&D and innovation processes. Embedded decision-making processes offer opportunities to all organizational members to co-determine corporate R&D and innovation.

Innovation and performance

The corporate model of innovation has survived years of economic slow-down as well as prosperity. Although there are numerous reasons for a company’s financial success, from enlightened top management with a long-term view to specific competencies tailored to specific markets, we highlight the particular business model of corporate innovation. As
said in the introduction, innovation allows service companies to timely differentiate their service portfolio and by doing so, obtain sustained competitive advantage. In line with this proposition, we offer two explanations why the Randstad model of innovation may underlie the company’s financial performance (cf. Kelly & Storey, 2000).

First, the Randstad model has features that promote organizational learning. For example, the model is built upon decision-making processes that create conditions for open inquiry within each firm, as well as across the Randstad firms. The strategic management literature increasingly acknowledges the development of a learning ability as a prerequisite to sustainable performance (Dodgson, 1993; Senge, 1990). In the literature on learning, a distinction is made between single and double loop learning (Argyris & Schön, 1978). The first is learning to do existing things better (more efficiently) and the second is learning to do new things (from a new perspective). For double loop learning, the key actors in the organization have to be able to create ongoing dialogues, a conversational process in which defensive reasoning and behaviour do not impede free and open inquiry (Argyris, 2003).

Second, the Randstad model seems to have solved the dilemma between exploitation and exploration. That is, the notions of different orders of learning are closely related to the distinction between exploitation – the efficient use of existing competencies – and exploration, the development of new resources or competencies (March, 1991). Exploitation is required for firms to survive in the short term, and exploration is required to survive in the long term. Thus, the literature states that in order to survive now and later the firm must perform both, i.e., engage both in exploitation and exploration. But this entails a paradox (Gilsing & Nooteboom, 2006): exploitation requires the maintenance of existing entity, knowledge and practices, with a certain amount of control and coordination. Exploration requires their change, with a loosening of control and coordination.

Randstad operates a flexible form of a matrix organization: cross-functional and cross-departmental groups are formed ad hoc, according to the opportunity at hand (cf. Gallouj & Weinstein, 1997). This so-called ‘hypertext’ organisation is what Nonaka & Takeuchi (1995) recommend for exploring innovative, novel combinations of existing practices. Additionally, Randstad separates exploitation and exploration in place and time (Volberda, 1998). Throughout the organisation, employees and teams engage in exploration. Another team fosters the exploitation of successful exploration results. The Randstad ‘copy & paste’ method is the replication of strong concepts and specialities across the operating companies using existing front and back office capacity. Randstad’s funnel concept, in combination with the sequential teaming of exploration and exploitation offers the firm continuous cycles of innovation that are materialized in growing turnover rates (that is, organic growth).
5.5 Discussion

5.5.1 Conclusions

In developed countries, the service sector has grown rapidly since the beginning of the 20th century (Van Ark et al., 2000). It is true that many European service companies are small or medium-sized enterprises that deliver tailor-made ‘interactive’ solutions to local clients (Mazzacuto, 2000; Sundbo & Gallouj, 2000). They therefore have little to do with international competitors also because many service markets are protected by market regulations which foster their competitive position. This all may have limited their inclination to innovate, which is indicated by often-reported barriers such as a lack of finance, risk aversion and competing business priorities (Edvardsson et al., 1995; Howells & Tether, 2004; Oke, 2004). But globalization and the liberalisation of European service markets will have an impact on the competitive positions of service companies and – at least from a theoretical perspective – this should drive their innovative activities. Nonetheless, official statistics still suggest that the innovative performance of European service companies is below what should be expected (OECD, 2005a and 2005b). This indicates that many service companies still find it difficult, or less important, to develop new services (Howells, 2000; Vermeulen & Dankbaar, 2002). Our case company, however, provides evidence that a system of corporate innovation can be designed and implemented successfully in a service organization (cf. Dodsgon et al., 2005; Ozdimir et al., 2007). Although differences in size, markets and activities do exist between service organizations, we suggest that the Randstad business model of innovation offers helpful information for managers that aim to improve the innovative nature of their enterprise.

5.5.2 Implications for managers

First, there is a key factor that relates to the company-specific role of innovation. At all levels of the company the persons employed need to be convinced that innovation is the key to sustainable financial success (cf. Edvardsson et al., 2002; Kelly & Storey, 2000). Innovation should not be the end but the means that supports organic growth of the company: it does not need a separate strategy and/or budget to become effective. Our case study reveals that the propensity to innovate is an integral part of the Randstad company shaped by trends in the context of the organization. It is explicitly aimed at business development – a primary concern for the company is the ongoing requirement to map and respond innovations to a client’s needs (Alam & Perry, 2002). Related to this element is the timing of the introduction of the new service. Business consumers of service products sometimes demonstrate high levels of satisfaction with existing services. Where the benefits of a new service are unclear, and particularly when increased costs are
imposed, prospective clients may not accept the novel product. And so timely involvement of the client (e.g. in an innovation partnership) is important.

Another factor is the optimal structure and coordination of innovation processes and activities (cf. Nooteboom, 2000; Dodgson et al., 2005). Innovation is derived from creativity that on the one hand requires a trustworthy and non-bureaucratic context but on the other hand structure and coordination in order to prevent inefficiencies and to materialize investments (Meyer & DeTore, 2001). Our case company shows that innovation processes and practices are multi-faceted and their management involves the coordination of business intelligence, product and service development as well as the diffusion of best practices throughout the entire organization. All these will overlap but are equally important and therefore require substantial consideration in order to deliver successful new products and services. Randstad shows that the application of, for instance, a funnel concept and portfolio management in combination with a few dedicated employees (strategic groups) offer sufficient structure for harvesting successful new ideas. Related to this element is the codification of innovation practices. It is obvious that the codification of new knowledge is difficult but nonetheless important. Randstad offers methods and guidelines for the implementation of new services based on best practices and by doing so, diffuses the new services throughout the entire company.

A final lesson addresses the competencies and skills of managers and employees (cf. Oke, 2002). Innovation is not a product that can be bought on a market, nor is it often part of the curricula of high-schools, universities or manager programs. Formal training in service innovation management is rare in Europe, and it appears that there is little government support or encouragement for teaching programs specifically designed for service firms. The majority of organization theory and management practices still have their roots prior to the era of services and innovation, being designed to answer questions for old-style manufacturing enterprises. For that reason, the company itself needs to continuously train its managers and employees like Randstad pursues in its company-owned Randstad Academy. Although some innovation toolkits and knowledge databases are available, they often need to be customised to the company in question. In-house training also supports an innovative culture to the benefit of employees (De Brentani, 2001). Of course, many employees of service companies work at client sites that have their own structure and organizational culture. But being part of an innovative parent organization will challenge the development of competencies and therefore job satisfaction.
Managing Service Innovation

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