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Identification and management of high-potential professional services

Anssi Smedlund

BIT Research Centre, Innovation Management Institute,
Helsinki University of Technology, Espoo, Finland

Abstract

Purpose – In professional services, innovation occurs in the delivery. The purpose of this paper is to provide a framework for classifying innovation in professional services by taking into account the strength of the relationship with the client in addition to the incremental-radical nature of innovation.

Design/methodology/approach – Based on the framework provided, there are operational, experimental, tactical, and high-potential professional services, the characteristics of which are illustrated both conceptually and with a case example.

Findings – Professional service goes through different stages during its lifespan. A high-potential service is a stage where the nature of the innovation is radical and the relationship with the client is strong. It is suggested that high-potential services create a future competitive advantage not only for the service provider, but also for the client.

Research limitations/implications – A qualitative network approach with a focal actor perspective, in which the networks are illustrated from the supplier's point of view, is used. The characteristics of a high-potential service are connected to the development stage of the service.

Practical implications – Classification of professional services is provided, and the importance of high-potential services is highlighted. Advice for managers is given for designing suitable management initiatives in professional services in all their stages: idea, development, and commercialization.

Originality/value – The approach introduced in this paper addresses three gaps in the existing research: it helps to characterize and theorize the concept of innovation in professional services; it draws attention to the important role of the client in professional services, and it expands the management of innovation in professional services to include network relationships.

Keywords Professional services, Services, Innovation, Information networks, Channel relationships

Paper type Research paper

1. Introduction

The role of services has changed. A service is no longer seen solely as a complementary part of core technological know-how in innovation (Teece, 1986), although this is still an important role of industrial services. In addition to services being combined with

material goods to profit from technological innovation, services are innovated as such, and providing services has become the very core competence in an increasing number of firms. Globally, professional service firms are a rapidly-growing service industry today. A typical characteristic of this industry, which includes, for example, management and technical consulting, is that the services are innovated and delivered in ongoing close cooperation with the client. Knowledge intensiveness is another distinguishing characteristic of this business, where knowledge has a role both as a resource and as a service sold to clients.

Innovation has been well discussed in the literature of product innovation, but the current stream of literature cannot sufficiently fill the gap in the service economy. It is important to understand the nature of innovation in professional services, how ideas are developed and commercialized in an environment characterized by strong relationships with clients and knowledge intensiveness.

In professional services, as in most services in general, the reason for the highlighted role of the client is related to the fact that the client provides significant inputs into the production process, making the success of the service heavily reliant on client input (Sampson and Froehle, 2006). This has been said to distinguish services from a product business (Haynes, 1990). In most cases of professional services, innovation is carried out during the delivery of the service rather than in-house before the commercialization phase.

The usual strategy for a professional service firm is to create a service with a pilot client and after that duplicate and further develop that service with other clients. This means that the role of the relationship with a client is significant for the everyday operations of the professional service firm, regardless of whether the service delivered is one that has been recently discovered or is well established. The nature of the relationship can range from a weak and quasi-transactional relationship to a strong, internalized one that requires the physical presence of the professional service firm's personnel in the operations of the client (Laing and Lian, 2005). In all types of client relationships, the customer-specific knowledge transfer is highlighted in professional service firms, which increases the importance of the individuals dealing with the clients (Lindsay et al., 2003; Nätti et al., 2006).

Different taxonomies help in understanding the phenomena of knowledge and technology better (Teece, 2000). This was also the explanatory power of the Boston Consulting Group's (BCG) growth-share matrix drawn from the experience curve theory to describe the product portfolio of a firm with four combinations of market share and market growth rate (Rumelt et al., 1994). Since the times of the BCG matrix, similar matrices to map the innovation, emergence, and development of new products, firms, and industries have been introduced (e.g. Abernathy and Clark, 1985).

In service science the taxonomies presented to help make sense of the nature and management of different types of services include dimensions such as the level of back-office or front-office work, strategic operational focus, labor intensity, degree of interaction and customization, numbers of customers processed per day, and the impact of the service on the customer (Schmenner, 1986; Silvestro et al., 1992; Metters and Vargas, 2000; Wynstra et al., 2007).

The aim of this paper is to offer a simple new transilience map suitable for describing innovation in professional services. This empirical paper characterizes four main types of innovation in professional service firms with the dimensions of the tie

strength with a client and the radical-incremental nature of the innovation. With this tool, it is possible to see how an innovation influences the established systems of management in the firm (see Abernathy and Clark, 1985) and respond to the managerial challenges posed by the type of service innovation. The explanatory power of the matrix is illustrated with a case study from the professional service industry. The matrix comprises four categories of professional services, which are labeled as operational, experimental, tactical, and high-potential. In the case study, the network approach is used to describe the different phases of the service during its lifespan.

This paper pays special attention to the management of high-potential services, services that are not only radical for the market, but also co-produced in very close cooperation with a client. It is argued that high-potential services require an organic management system (Burns and Stalker, 1961), and the management system of high-potential services is described from the point of view of the skills of the employees, the level of the hierarchy, and the exchange of knowledge and power. In the discussion section, the implications of how to manage innovation in professional services in the idea stage, development stage, and commercialization stage are constructed from the point of view of the supplier, client, and network relationships.

2. Four types of professional services

In the transilience matrix of service innovation presented in this paper, the horizontal dimension represents the nature of the innovation, which ranges from incremental to radical. The incremental-radical continuum is a very well-established dichotomy to illustrate the nature of an innovation (Abernathy and Utterback, 1978; Abernathy and Clark, 1985), and it is based on the degree of uncertainty. This notion is based on the idea that innovation is not a unified phenomenon, as some innovations disrupt, destroy, and make the established competence obsolete, while others refine and improve. Incremental innovations involve no or very little market and/or technological uncertainty, while radical innovations involve a high level of uncertainty.

The vertical dimension of the matrix is defined from the network perspective – the tie strength can be either strong or weak in an incremental or radical-type service innovation (Figure 1). The starting premise in the network approach is the notion that relationships matter, and that one actor does not exist without interaction with others (see Uzzi, 1996).

The nature of the dyadic relationship between a professional service firm and its client in the delivery of a professional service affects the other relationships and also the internal structure of the professional service firm (see Hansen, 1999). Dyads are considered a viable topic of research in the network research literature, and concentrating on the dyad is one way to draw up the boundaries for research in a complex network (Halinen and Törnroos, 2005). In this paper, the type of relationship between the professional service firm and the client is seen as a significant factor in the classification of professional services, in addition to the incremental-radical continuum of innovation. Later in the case study, other relationships besides supplier-client relationships are also taken into account.

In the matrix of incremental-radical and weak tie-strong tie relationships with a client in Figure 1, four ideal types of services can be distinguished: operational; experimental; tactical; and high-potential.

In an operational service, the professional service firm delivers a service off the shelf and the relationship with the client is weak, in most cases only the order and delivery of a service. Operational services are well known in the market, and both the service provider and the client know exactly what the service includes and what to expect as a result. The service is clearly specified and the delivery follows specified processes and operations. Although the service is more or less fixed and unchanging from client to client, the delivery methods and production processes are constantly improved to gain greater efficiency. Examples of operational services in the professional services field are auditing, accounting, and banking services. Profit margins in operational services are tight, since the client can choose between many similar alternatives. The role of innovation in operational services is to improve the profit margins of the service with incremental and evolutionary changes to the existing routines that result in improved efficiency (see Nelson and Winter, 1982). In operational services the risks of failure are low. Innovation in operational services can also be described as a competence-enhancing type of innovation (Tushman and Anderson, 1986), or incremental improvements in the components of the service (see Hamel, 2000).

The second type, labeled here as an experimental service, involves high market or technology uncertainty. The service produced is radically new to the market, but it solves a specific client problem. In an experimental service, the client has a need that has to be fulfilled, but the service provider does not have a ready-made solution for this need. From the clients' perspective, an experimental service is similar to an operational service. For the supplier, however, an experimental service involves considerable risk, since the innovation of a service is radical and involves a high degree of uncertainty. Examples of experimental services are, for example, web services, such as voice-over-IP services. The client has a need to communicate over the telephone, but the technology underlying the telephone service changes dramatically with the new service innovated by the service provider at its own expense. An experimental service involves the possibility of high profits through radical, non-linear (Hamel, 2000) innovation, so PSFs working with these kinds of services are willing to take the risks involved.

In an experimental service, a professional service firm sells services to its clients without having the services ready. This, and also the fact that the client is not involved in the R&D, increases the risk of failure for the PSF, but increases the opportunity for
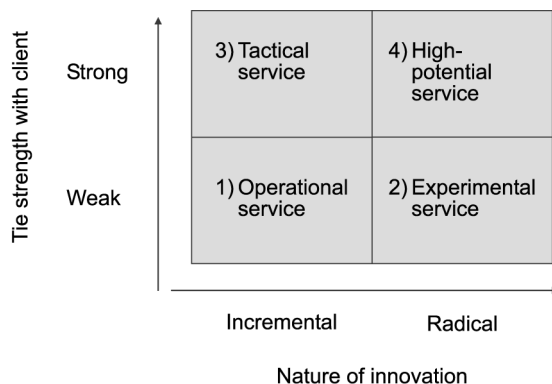

Figure 1.
Classification of professional services described with four combinations of tie strength with a client and the nature of the innovation

profits. Sometimes it may be the case that when the client orders the service, the service is created ad hoc for the client even if the client is under the impression that they are ordering an operational type of service. This behavior naturally increases the risk of failure. A strategy to reduce the risk of failure in experimental services is to solve the specific client need with a modular service by combining old technology in a new, radically innovative way. Therefore, an experimental service may have a touch of architectural innovation (Henderson and Clark, 1990) in it.

The third type of service in the incremental-radical and strong-weak tie matrix is a tactical service. A tactical service is the cash cow of a professional service firm because of the strong client involvement, combined with the operational characteristics of producing the service. In this service, the client is highly interested in the successful delivery of the service, but the professional service firm has developed competences and operational processes to deliver services on a day-to-day basis. A classical example of a tactical service is a law firm; other common examples are, for example, wedding and funeral services. In these kinds of services, the client is willing to pay extra just to make sure that the delivery of the service is successful. Tactical services leave room for business model innovations, and profits are made by thinking of new ways of serving committed clients. This differs substantially from innovation in operational services, where the locus of interest is merely to improve the efficiency of the delivery of the service. In tactical services, the profit margins can be further increased with business model re-design to achieve more efficient ways to tailor and deliver the existing services for clients.

The fourth category of professional services introduced in this paper is labeled as a high-potential service. This service is a combination of radical innovation and a strong tie relationship between the client and the supplier, a combination that can be said to be rather rare in the economy of material goods. In this service, the client bears their part of the risk of innovation when a radically new service for the market is innovated. A high-potential service will potentially benefit both the client and the professional service firm in the future. When a successful, high-potential service radically increases the performance of both the professional service firm and its client, the service will replace incumbents, and also devalue the complementary assets of competing services (see Abernathy and Clark, 1985). According to Abernathy and Utterback (1978), this kind of disruptive technological change in existing markets is often introduced from outside the established industry. An ex-post example of a high-potential service is the SMS text messaging systems that were developed during the internet boom for European telecommunications operators by small, independent professional service firms. SMS text messaging services ended up making fortunes for telecommunications operators, and created a whole industry dedicated to the continuous development of new variations in these services.

3. Case study – workplace transformation service
The workplace transformation service provided by an architectural studio is used as a case example to illustrate the perceived transition of the service in the matrix of four combinations of tie strength and the nature of the innovation.

The research approach in this paper is the qualitative network point of view, with a focal actor perspective (Halinen and Törnroos, 2005). In this the network relationships are looked at from the point of view of a focal actor, in this case the service provider.

Besides the nature of the innovation and the strength of the tie between the supplier and the client, the operational logic of the service is also studied from the following points of view:

- the types of actors involved;
- the types of relationships;
- the nature of the flows between the actors; and
- the directionality of the flows between the actors.

The data were collected by means of in-depth semi-structured face-to-face interviews with three individuals working with the case service. These individuals represented different levels of the hierarchy in the firm, to ensure a broad image of the service. The interviewees were the CEO of the PSF, the product manager of the workplace transformation service, and one shop floor-level employee. In addition to the interviews, some marketing material and some internal documents about the service were also used. After the preliminary analysis of the interviews, a workshop with the company was organized. In the workshop, the descriptions of the networks at: the idea stage; the development stage; and the present stage of the service were presented, and the descriptions were commented on by the management team of the firm and the individuals interviewed.

After the workshop, some corrections were made to the network illustrations. In this way, the network illustrations presented here are the result of multiple viewpoints gathered from interviews, documents made available to researchers, and a workshop in the case firm.

On the basis of the interviews, network pictures were constructed from the point of view of the architectural studio. The focal actor approach includes only those actors that the individuals interviewed and the management team considered relevant. The network illustrations were drawn on the basis of Allee's (2002) value networks approach. This method, where the distinction between tangible and intangible flows between actors plays a significant role, has previously been successfully used in the regional cluster context (see Pöyhönen and Smedlund, 2004; Smedlund and Pöyhönen, 2005). In the next part, the network illustrations at: the present stage; the idea stage, and the development stage of the service are presented, in addition to a description of the service from the network point of view.

The workplace transformation service was first developed in the early 1990s, when there were no competing services available in the case company's market. According to the company, the goal of the service is to increase the effectiveness of the client's operations by enhancing office space use to support the strategy of the client firm. At the moment, the service has the characteristics of an operational service, but as the case below shows, the service has gone through different phases during its lifespan.

The basic business model of the service is well established (Figure 2), because the service has been developed to a stage where it can be offered to many clients in a similar way. At the present stage, the relationship with the client is related to the delivery of the service, not to the development of the service. The service delivery, however, requires quite a bit of involvement and dedication from the client's side too. Only a few partners are used in the delivery of the service. The delivery procedures of the service have been developed to a clear chain of events and the work tasks are defined in advance. After the service has been sold to a client, it seems that the communication with
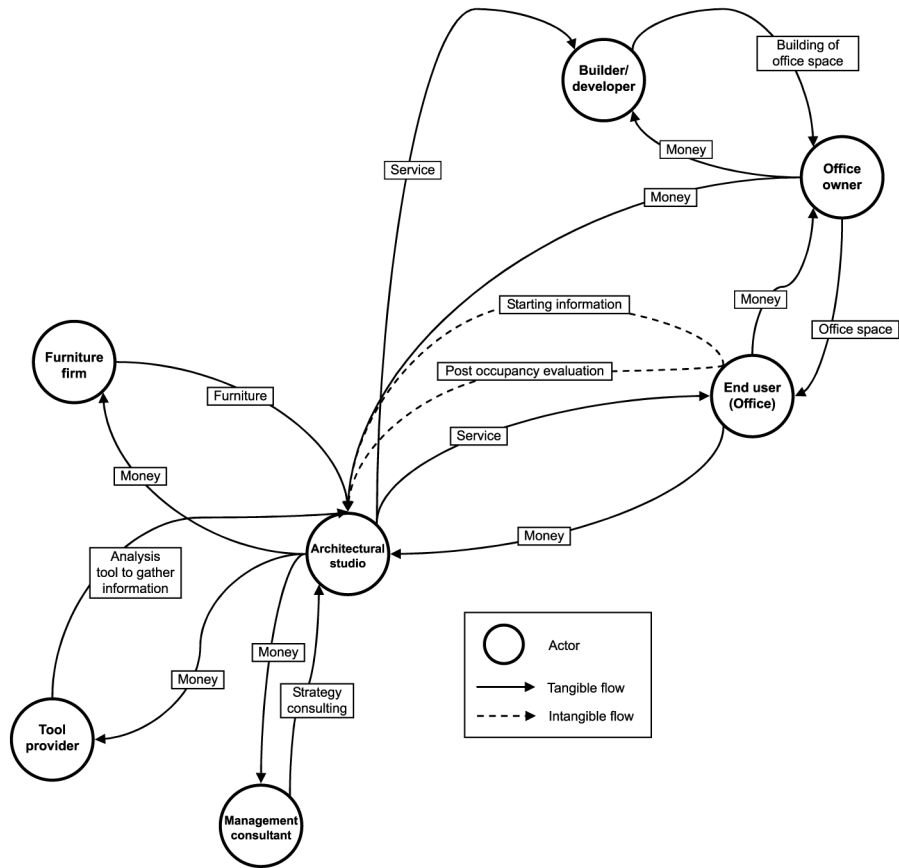
Figure 2.
Network presentation of
the present stage of the
workplace transformation
service case

the client is related to the delivery of the service. This communication involves gathering information about the current situation and observations during the service. After the service, the architectural studio performs an analysis that they call a post-occupancy evaluation, where the success of the workplace design is evaluated.

Although the workplace transformation service is produced to meet the needs of the user of the office, the role of the owner of the office space is usually significant, in the sense that the architectural studio tailors the service according to the situation. If, for example, an office space is designed for a new building, the architectural studio works closely with the builder/developer during the building process, as the workplace design is already taken into account in the building phase. In the actual delivery of the service, the architectural studio uses a furniture firm, management consultants, and a tool provider as suppliers. The management consultant helps the architectural studio to define the strategy of the client and the tool provider supplies the architectural studio with a method to gather information to support the workplace design.

The business model described above was not clear in the early stages of the service. In the very idea phase of the service, in the early 1990s (Figure 3), the service could have been described as an experimental service, a service involving radical innovation
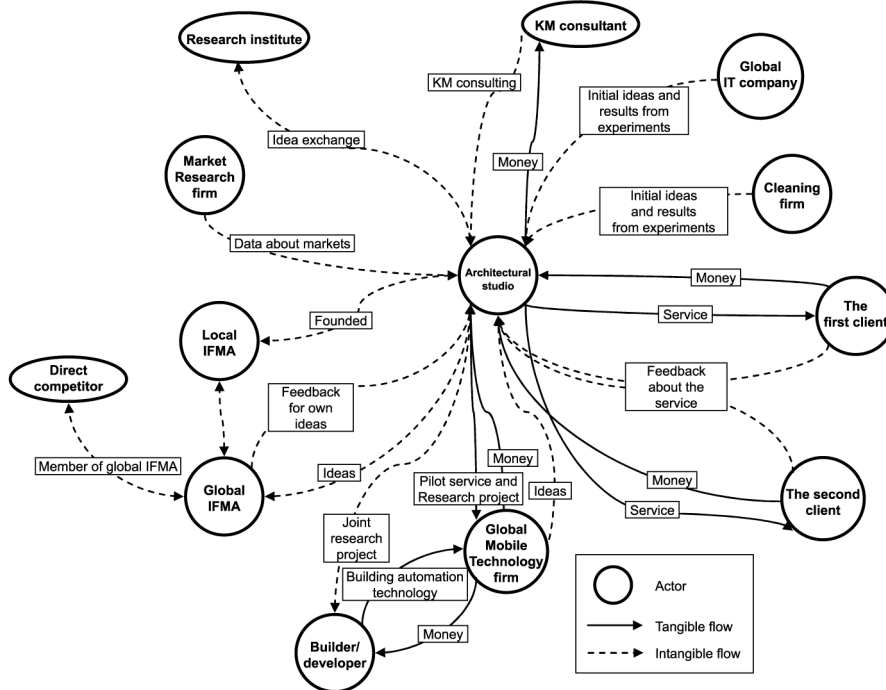
Figure 3.
Network presentation of
the idea phase of the
workplace planning
service

combined with a distant relationship with the client in the development work on the service.

The initial idea for the service was captured from a global IT company that had to renew a branch office. At the same time, a local cleaning company was making a similar effort. Market demand for the workplace transformation service slowly built up, and the architectural studio decided to start providing the service. Important ideas were obtained from the first and the second workplace transformation service clients, which were small offices, although the particular pilot client for the service was a global mobile technology firm. Ideas for the service were generated with this pilot client in a joint research project that also involved other important actors, in particular from the perspective of a builder-developer.

The research institute provided an exchange of ideas for the service. As a part of their strategy, the architectural company founded a local branch of the International Facility Management Association (IFMA). This, as well as connections to global IFMA, was an important gateway to obtain information in the field. At conferences arranged by IFMA, the architectural studio was able to get feedback and stay informed about developments in the field. An indirect link to a competitor was formed through IFMA, although it was uncertain what the exact contribution of this link would be for the case architectural company. Supposedly, some of the information that came from IFMA originated from the competitor. The architectural firm also obtained information from a knowledge management consultant to link workplace planning to clients' strategy.

Right after the idea phase, the nature of the case service changed towards the definition of a high-potential service. This stage started when the architectural studio

engaged in a long-term development project after the first pilot with the global mobile technology firm. This phase lasted quite a long time, almost the whole of the 1990s. Besides the strong relationship with the global mobile technology firm, the architectural studio had developmental relationships with a couple of other clients as well. The benefits gained from these relationships ranged from a very successful service case that was used as a best practice example to the development of a certain method or part of the service.

In Figure 4, the joint research project is highlighted in gray. The actors involved in this project were a government funding agency, a global mobile technology firm, a builder/developer, and a project management firm. A competitor also participated indirectly in this joint research effort by providing a one-off project for the global mobile technology firm. The main idea of the research project was to team up with the builder/developer and with the global mobile technology firm in such a way that the latter functioned as a test environment for experiments on workplace planning services. From the point of view of the architectural studio, the mobile technology firm benefited from the service through improved use of office space. For the global company, this resulted in substantial benefits in the efficiency of workspace use.
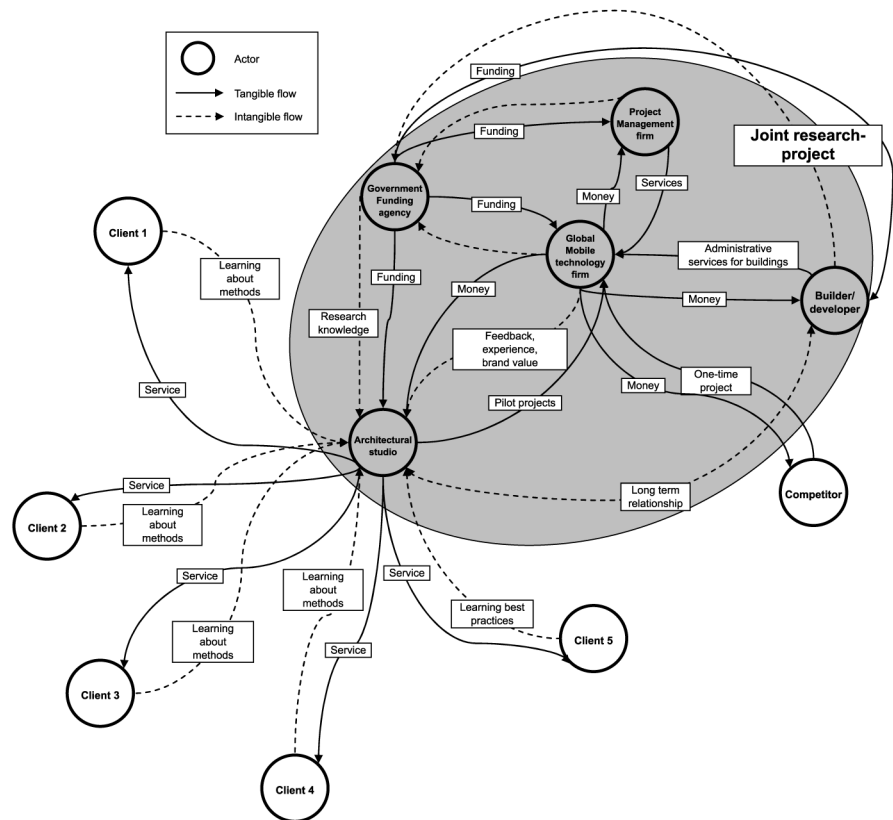

Figure 4.
Network presentation of the development phase of the workplace planning service

During the joint research project, the architectural studio supplied the mobile technology firm with numerous small consulting jobs. Another benefit, besides the feedback for the development of the architectural firm, was the improved brand value that the partnership with the global mobile technology firm offered. At the time of the joint research project, the development work was coordinated by the government funding agency. The funding agency acted as an intermediary between the actors, and arranged funding and other resources for the participating actors. During the research project, the architectural studio received funding that was enough to enable them to hire one full-time developer for two years.

4. Identification and management of high-potential services

In the workplace transformation service case presented above, the idea stage consisted of many weak, informational ties with seemingly coincidental partners. After the idea stage, when the basic structure of the service was established, the further development of the service seemed to take place with better-picked actors and with stronger ties. In the development stage of the service, knowledge was transferred reciprocally between the client and the professional service firm. The idea stage of a workplace transformation service is an example of a radical innovation that is carried out without client involvement in the development work, whereas the developmental phase represents a radical innovation with a close and reciprocal relationship with the pilot client. At its present stage, the service involves incremental innovation and constant fine-tuning of the delivery processes. In the present stage, the service is continuously improved according to client feedback, but the service as such is not radically changed. Figure 5 illustrates the perceived transition of the workplace transformation service during its lifespan.

The identification and successful management of high-potential services is advantageous for a professional service firm because of the sharing of risks in the development of the service, combined with the strong possibility of profit through radical innovation. In the case study above, it can be noted that the development stage of the case service lasted a very long time, almost a decade, right after a relatively short idea stage. The present business model and the contents of the service are the result of long and reciprocal development work done with a pilot client, based on an idea generated in the early phases of the service. This may indicate that the proper
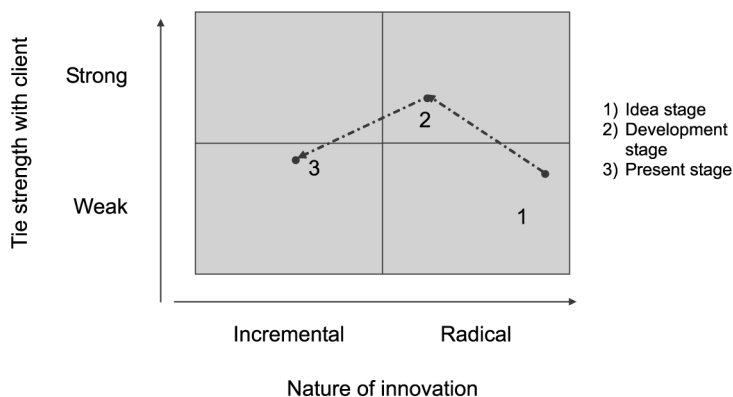

Figure 5.
Transition of the workplace transformation service during its lifespan

management of the development phase is especially important for a professional service firm, not only because it results in improvements in the service as such, but also because this proper management is likely to shorten the time devoted to the development of the service.

This paper suggests that a high-potential service is identifiable by two distinguishing characteristics:

(1) the nature of the innovation is radical; and

(2) the relationship with the client is strong.

However, the case above suggests that a high-potential service also has other distinguishing characteristics that relate to these two characteristics. First of all, the types of actors involved in the high-potential service share with the PSF an interest in developing the service. This means that the client must have well-articulated evidence of the future potential of the service in order to commit themselves to the development work. In the case of the workplace transformation service the advantages of the service were easy to show to the clients in the development phase, and the joint research project also involved other strongly committed actors. Second, the nature of the relationship between the PSF and the client in the high-potential service becomes close and reciprocal not only at the firm level, but also at the individual level. During the development process, the individuals from both sides get to know each other very well. Third, the nature of the flows between the PSF and the client in a strategic service is complex developmental knowledge, not bits and pieces of ideas. This relates to the fourth point, the directionality of the flows. The direction of the knowledge flows is reciprocal. In the above case, the client firm received knowledge about the workplace use from the PSF.

Given that the individuals involved in the development of high-potential services are carefully picked professionals from both the PSF and the client organization, the nature of information exchange is complex knowledge about the service, and the exchange of information is reciprocal and consultative, which requires strong ties between the individuals. Burns and Stalker's (1961) characterization of an organic management system fits perfectly with the characteristics of the organization engaged in the development of a high-potential service. The characteristics of an organic management system are summarized in Table I. The total of 11 characteristics that describe organic management systems in Burns and Stalker's (1961) work have been regrouped in categories of: skills; level of hierarchy; exchange of information; and power (see Ståhle and Grönroos, 2000).

To summarize Table I, the organic management system (Burns and Stalker, 1961) is the most desirable management system in high-potential services, and it is characterized as a system of professional skills, a flat hierarchy, consultative exchange of knowledge, and a power structure that is enforced by social peer pressure. In contrast, mechanistic management, which is placed at the opposite end of Burns's and Stalker's (1961) dichotomy, represents a hierarchy and specialized functional tasks and is designed for stable conditions. The organic management system has been designed for changing conditions and functions with the logic of the adjustment and redefinition of individual tasks through interaction with others. The organic management system is decentralized and likely to be utilized in firms engaged in radically innovative tasks (see also Galbraith, 1974).

Network characteristics of high-potential services	
Individuals involved	Highest talent. Well-picked individuals from both the professional service firm and from the client
Relationships between individuals	Strong ties
Flows between individuals	Complex knowledge
Directionality of the flows	Reciprocal
Organic management system characteristics in high-potential services (drawn from Burns and Stalker, 1961):	
Skills of employees	Skills are professional competencies, experience in the task as a whole instead of just one piece. Holistic approach to the work
Level of hierarchy	Relationships are based on commitment to the "concern beyond any technical definition". There are no superiors and subordinates, and the knowledge about the task may be located anywhere in the social network
Exchange of knowledge	Ongoing adjustment, information, and advice to others, not instructions and decisions. Affiliations external to the organization are emphasized as long as they are valid from the individual's point of view. Communication is lateral rather than vertical, resembling consultation rather than command
Power	Commitment to the "technological ethos" is valued more highly than loyalty and obedience. People cannot post problems away from themselves. Possible sanctions are of a social kind and derive from the network of co-workers more than from the contractual relationship between a worker and the corporation or the immediate supervisor

Table I.
Network characteristics
and the characteristics of
an organic management
system in high-potential
services

5. Discussion

This paper introduced the concept of a high-potential service to describe a highly important stage in the lifespan of a professional service, a stage where a radically new service is developed, "co-produced" in a close relationship with a client. A high-potential service is likely to result in high profits in the future, combined with a lower and shared risk of failure in the development phase.

Other types of services that were identified in the matrix of incremental-radical innovation and the weak-strong tie with a client were labeled as operational, experimental, and tactical services. The workplace transformation case example of an architectural studio suggested that the nature of innovation in a professional service is transilient in the lifespan of the service. The different stages that the service undergoes during its lifespan have very different kinds of relationship structures with the clients and other partners.

The workplace transformation service used as a case example was born as an experimental service; it was innovated in-house, according to a need in the market identified by a single entrepreneurial individual. It must be noted that the network relations in the early phases of the service were largely the relationships of this individual, not of the company. In the development stage, a pilot client, a global mobile

technology firm, became interested in the service, which resulted in a long and reciprocal relationship with this client. During the developmental period of the service, the risks of failure were shared between the architectural studio, the pilot client, and the government funding agency in a joint research project. Finally, the present stage of the service fulfills the characteristics of an operational service, because the service is well established and the relationships with clients involve only communication that is related to the delivery of the service, not to the innovation work on the service.

Characterizing different types of services is easy. The real challenge is to create the right management system for each phase of the lifespan of the service. In an environment of co-production with its clients, the professional service firm must take into account management challenges that extend beyond its own organization, to its client and to the network relationships. In Table II, the three stages of the innovation process, the idea stage, the development stage, and the commercialization stage, are presented in a more general way by gathering together management implications from the point of view of the PSF, the client, and the network relationships.

The concrete implications for managers of service innovation can be summarized as follows:

- In the idea stage, encourage entrepreneurship in the organization, seek out ideas and client needs, and build distributed, non-redundant network relationships.

- In the development stage, hire professionally rigorous individuals, build strong relationships with pilot clients, and engage in fewer, well-picked network relationships.

- In the commercialization stage, gather a group of well-trained managers, build mechanisms to get feedback from the clients, and control the network relationships with legal contracts to protect your service.

The network illustrations above only present the viewpoint of the architectural studio and it must be presumed that the illustrations would be rather different if the clients or other actors were also interviewed. It is, however, a good strategy to build the image from the supplier's perspective, because information on the network relations of the other actors is rarely available when the firm is engaged in managerial decisions. In the case example, the characteristics of the high-potential service were strongly connected to the development phase of the case service, which is naturally just one case example.

In the development phase of the service innovation, getting the pilot clients committed can be a big problem. The PSF must be able to show the client the potential benefits of participating in the development work. Besides calculations showing the future potential, this requires personal talent and experience, and willingness to engage in collaborative relationships from the professionals involved in the development phase of the service innovation. Reciprocal development does not work if the collaborating parties are not willing freely to share their knowledge during the development. This does not mean that all knowledge should be shared, but the managers should be aware what knowledge is the kind of knowledge that has to be kept secret.

This article provided an approach to distinguishing between different types of professional services. The matrix that was introduced provides a tool for managers in professional service firms to define suitable management initiatives in services from the point of view of the relationship with a client and the nature of the innovation. The

Stage of the innovation process	Idea stage	Development stage	Commercialization stage
PSF as a supplier	Invest in innovative and entrepreneurial individuals who are rich in ideas for new services	Invest in highly talented and professionally rigorous senior professionals who have the competence to develop the service	Invest in well-trained managers to ensure the delivery of the service
Client	Actively seek out ideas from the existing clients as well as from the market to map potential client needs	Build strong and reciprocal relationships to one or to a couple of pilot clients	Build mechanisms to get feedback from the client on the quality and delivery issues of the service
Networks	Build many, but not very close network relationships with non-redundant sources of knowledge across hierarchical levels. Actively gather ideas from network partners	Build redundant and reciprocal relationships with fewer, well-picked partners. Actively engage in sharing of complex knowledge	Build hierarchical supply-demand chains. Enforce the relationships with legal contracts. Restrict communication to issues concerning the delivery of the service and protect your core competence

Table II.
Management of
innovation in
professional services;
supplier, client, and
network implications

nature of innovation ranges from incremental to radical, and each innovation on this continuum requires different organizational environments and managerial skills (Abernathy and Clark, 1985). Evolutionary, incremental innovation reinforces the capabilities of an established organization, while radical innovation forces organizations to draw on new technologies and skills, and to employ new approaches in order to solve problems (Henderson and Clark, 1990).

Organizing according to the organic management system was suggested here as the management system for high-potential services – services that are both radical and co-produced with the client. However, a firm aiming at a sustained competitive advantage through service innovation must also master the management system for incremental innovation. Concentrating on high-potential services is most suitable for the development of services that have both high technological uncertainty and high market uncertainty, because in that case the sharing of the risks associated with the development in a reciprocal and close relationship with the client is most likely to pay off in the long term.

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About the authors
Anssi Smedlund, M.Econ.Sc., is a Researcher in the Innovation Management Institute (IMI) at Helsinki University of Technology. His previous award-winning research relates to the topics of intellectual capital and inter-firm networks in regions. In the field of services, his research interests are in network perspectives on service innovation and in the network analysis of flows of knowledge in service firms. He can be contacted at: Anssi.Smedlund@tkk.fi