

# Managing Knowledge and Co-creation in Service Innovation: The Case of the Advertising Industry

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## List of Contents

<b>LIST OF CONTENTS</b> .....	<b>2</b>
<b>LIST OF FIGURES</b> .....	<b>8</b>
<b>LIST OF FIGURES IN APPENDICES</b> .....	<b>9</b>
<b>LIST OF TABLES</b> .....	<b>10</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>12</b>
<b>ABSTRACT</b> .....	<b>13</b>
<b>DECLARATION</b> .....	<b>14</b>
<b>COPYRIGHT STATEMENT</b> .....	<b>14</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>15</b>
<b>THE AUTHOR</b> .....	<b>16</b>
<b>COMMERCIAL CONFIDENTIALITY</b> .....	<b>17</b>
<b>PUBLICATIONS (ATTENDED CONFERENCES)</b> .....	<b>18</b>
<b>1 INTRODUCTION</b> .....	<b>19</b>
1.1 INTRODUCTION .....	19
1.2 THE IMPORTANCE OF THE STUDY .....	21
1.3 THEORETICAL STANDPOINT .....	23
1.4 GAPS, OBJECTIVES, AND RESEARCH QUESTIONS .....	24
1.5 RESEARCH CONTEXT .....	25
1.6 THE RESEARCH APPROACH IN BRIEF .....	26
1.7 THESIS STRUCTURE .....	27
<b>2 LITERATURE REVIEW 1: SERVICE INNOVATION AND KIBS</b> .....	<b>32</b>
2.1 INTRODUCTION .....	32
2.2 INNOVATION .....	32
2.2.1 <i>The definition of innovation</i> .....	32
2.2.2 <i>Types of innovation</i> .....	33
2.3 SERVICE INNOVATION .....	36
2.3.1 <i>The nature of service innovation</i> .....	37
2.4 KNOWLEDGE-INTENSIVE BUSINESS SERVICES (KIBS) .....	39
2.4.1 <i>KIBS definition</i> .....	39
2.4.2 <i>KIBS classification</i> .....	40
2.5 CONCLUSION .....	41

<b>3</b>	<b>LITERATURE REVIEW 2: INNOVATION PROCESS, CUSTOMER INVOLVEMENT AND CO-CREATION .....</b>	<b>42</b>
3.1	INTRODUCTION .....	42
3.2	INNOVATION PROCESS .....	43
3.2.1	<i>Reverse product cycle</i> .....	43
3.2.2	<i>Innovation processes</i> .....	44
3.2.3	<i>The importance of learning process in KIBS</i> .....	45
3.2.4	<i>Knowledge bases</i> .....	46
3.3	NEW SERVICE DEVELOPMENT STAGES .....	47
3.3.1	<i>Existing new service development models</i> .....	47
3.4	CO-CREATION AND CUSTOMER INVOLVEMENT .....	53
3.4.1	<i>The importance of customer involvement</i> .....	53
3.4.2	<i>The nature of co-creation</i> .....	55
3.4.3	<i>The definition of co-creation</i> .....	57
3.4.4	<i>The importance of co-creation</i> .....	58
3.4.5	<i>Co-production/co-creation antecedents</i> .....	60
3.4.6	<i>Co-creation process</i> .....	62
3.4.7	<i>The interaction relationships between KIBS and their clients</i> .....	66
3.4.8	<i>The role played by customers</i> .....	68
3.4.9	<i>The frequency/intensity of interaction in different stages</i> .....	69
3.4.10	<i>The communication between KIBS firms and their clients</i> .....	72
3.4.11	<i>Communication frequency</i> .....	73
3.4.12	<i>User-based service innovation</i> .....	73
3.5	CONCLUSION .....	74
<b>4</b>	<b>LITERATURE REVIEW 3: KIBS PROJECT INNOVATIVENESS.....</b>	<b>75</b>
4.1	INTRODUCTION .....	75
4.2	OVERVIEW OF PROJECTS .....	76
4.3	PROJECT-BASED ORGANISATIONS.....	78
4.3.1	<i>CoPS</i> .....	81
4.4	INNOVATIVENESS .....	84
4.5	PROJECT INNOVATIVENESS IN KIBS.....	85
4.5.1	<i>The meaning of project innovativeness in KIBS</i> .....	86
4.6	THE INFLUENCES OF PROJECT INNOVATIVENESS ON THE NEW SERVICE DEVELOPMENT PROCESS.....	88
4.6.1	<i>Influence on new service development stages</i> .....	89
4.6.2	<i>Influence on the project participants</i> .....	90

4.6.3	<i>Influence on the interaction between service companies and clients</i> .....	93
4.7	CONCLUSION.....	95
<b>5</b>	<b>THE ADVERTISING INDUSTRY.....</b>	<b>96</b>
5.1	INTRODUCTION.....	96
5.2	THE TYPES OF ADVERTISING AGENCIES.....	96
5.3	THE ESSENCE OF ADVERTISING SERVICES .....	97
5.4	CREATIVITY .....	98
5.4.1	<i>Creativity dimensions in advertising</i> .....	100
5.4.2	<i>Advertising creativity</i> .....	102
5.4.3	<i>Components of individual creativity</i> .....	103
5.5	THE DEVELOPMENT STAGES IN ADVERTISING PROJECTS.....	103
5.5.1	<i>The transitions in the process of developing advertisements</i> .....	106
5.6	THE MAIN PARTICIPANTS INVOLVED IN PROJECTS .....	107
5.7	INNOVATION IN ADVERTISING .....	107
5.8	THE CURRENT TREND OF THE ADVERTISING INDUSTRY .....	109
5.9	CONCLUSION.....	112
<b>6</b>	<b>METHODOLOGY.....</b>	<b>113</b>
6.1	INTRODUCTION.....	113
6.2	CONCEPTUAL FRAMEWORK .....	113
6.3	RESEARCH QUESTIONS .....	117
6.4	RESEARCH STRATEGY .....	121
6.4.1	<i>Research philosophy</i> .....	121
6.4.2	<i>Research approach</i> .....	123
6.4.3	<i>Multiple case studies</i> .....	124
6.4.4	<i>Case selection</i> .....	124
6.5	DATA COLLECTION.....	127
6.6	DATA ANALYSIS .....	130
6.7	ETHICAL CONSIDERATIONS.....	132
6.7.1	<i>Limitations and validity issues</i> .....	133
6.8	CONCLUSION.....	135
<b>7</b>	<b>RESEARCH RESULT 1: THE NATURE OF ADVERTISING INNOVATION.....</b>	<b>136</b>
7.1	INTRODUCTION.....	136
7.2	THE NATURE OF ADVERTISING INNOVATION .....	136
7.2.1	<i>Why innovate?</i> .....	140
7.3	MAIN FEATURES OF ADVERTISING INNOVATION.....	142
7.3.1	<i>Innovation element 1: New service concept</i> .....	142

7.3.2	<i>Innovation element 2: Advertising content</i>	144
7.3.3	<i>Innovation element 3: Delivery channels</i>	146
7.3.4	<i>Innovation element 4: Technology</i>	147
7.3.5	<i>Innovation element 5: Data</i>	148
7.3.6	<i>Innovation element 7: Client interface</i>	150
7.3.7	<i>Innovation element 7: Consumer interface</i>	150
7.3.8	<i>Innovation element 8: Revenue model</i>	151
7.3.9	<i>Innovation element 9: Changes in value chain</i>	152
7.3.10	<i>Innovation element 10: Changes in organisation</i>	153
7.4	THE DISCUSSION OF THE KEY ELEMENTS OF ADVERTISING INNOVATION	153
7.5	COMPANY COMPARISON	157
7.6	DEN HERTOOG'S APPROACH	158
7.7	CONCLUSION	166
<b>8</b>	<b>RESEARCH RESULT 2: INNOVATION PROCESS AND CO-CREATION</b>	<b>167</b>
8.1	INTRODUCTION	167
8.2	THE NEW SERVICE DEVELOPMENT MODEL	168
8.2.1	<i>Stage 1: Client brief</i>	172
8.2.2	<i>Stage 2 Understanding client business (Collecting information)</i>	172
8.2.3	<i>Stage 3 Problem diagnosis</i>	173
8.2.4	<i>Stage 4 Strategy planning</i>	174
8.2.5	<i>Stage 5 Developing creative brief</i>	174
8.2.6	<i>Stage 6 Idea generation</i>	174
8.2.7	<i>Stage 7 Idea testing</i>	174
8.2.8	<i>Stage 8 Idea selection</i>	176
8.2.9	<i>Stage 9 Idea amplification</i>	176
8.2.10	<i>Stage 10 Idea production</i>	178
8.2.11	<i>Stage 11 Marketing test</i>	178
8.2.12	<i>Stage 12 Launch</i>	178
8.2.13	<i>Stage 13 &amp; 14 Evaluation and learning</i>	178
8.3	THE DISCUSSION OF THE DEVELOPMENT STAGES	181
8.4	THE SERVICE INNOVATION PROCESS	183
8.4.1	<i>The transmutations in the innovation process</i>	185
8.4.2	<i>The involvement of media agency</i>	188
8.5	CO-CREATION	190
8.5.1	<i>Managers' perception of reasons for co-creation</i>	190
8.5.2	<i>The importance of the timing of client involvement</i>	192

8.5.3	<i>The participants involved in different stages.....</i>	194
8.5.4	<i>The discussion of four departments.....</i>	194
8.5.5	<i>The structure of project team.....</i>	198
8.6	HOW CLIENTS ENGAGE IN THE INNOVATION PROCESS .....	198
8.6.1	<i>Co-creation in the problem definition phase.....</i>	199
8.6.2	<i>Co-creation in the creative phase.....</i>	209
8.6.3	<i>Co-creation in the production phase.....</i>	221
8.6.4	<i>Co-creation in the idea commercialisation phase .....</i>	225
8.6.5	<i>Co-creation in the evaluation and learning phase.....</i>	226
8.7	THE INTENSITY OF CO-CREATION.....	229
8.8	INTERACTION APPROACHES .....	231
8.9	THE COMPLEXITY OF CO-CREATION .....	237
8.10	LEARNING (KNOWLEDGE TRANSFERRING).....	239
8.11	CONCLUSION.....	240
<b>9</b>	<b>RESEARCH RESULT 3: KIBS PROJECT INNOVATIVENESS AND ITS INFLUENCES ON THE NEW SERVICE DEVELOPMENT PROCESS .....</b>	<b>247</b>
9.1	INTRODUCTION.....	247
9.2	THE CONCEPTUALISATION OF KIBS PROJECT INNOVATIVENESS.....	247
9.3	THE PRACTITIONERS' PERCEPTION OF KIBS PROJECT INNOVATIVENESS.....	251
9.4	KIBS PROJECT INNOVATIVENESS INFLUENCES ON NEW SERVICE DEVELOPMENT ...	257
9.4.1	<i>Influence on new service development stages.....</i>	260
9.4.2	<i>Influences on project participants.....</i>	262
9.4.3	<i>Influence on the engagement between the agency and the client.....</i>	269
9.4.4	<i>Influence on communication approaches.....</i>	273
9.5	TYPOLGY OF PROJECT DEVELOPMENT IN KIBS .....	277
9.6	CONCLUSION.....	280
<b>10</b>	<b>DISCUSSION AND CONCLUSION .....</b>	<b>281</b>
10.1	INTRODUCTION.....	281
10.2	REVIEW OF KEY FINDINGS .....	282
10.2.1	<i>The nature of advertising innovation and service innovation dimensions .....</i>	284
10.2.2	<i>Innovation process and co-creation.....</i>	285
10.2.3	<i>Influences of KIBS project innovativeness on the innovation process.....</i>	290
10.3	THEORETICAL CONTRIBUTIONS AND PRACTICAL IMPLICATIONS .....	293
10.3.1	<i>Theoretical and conceptual contributions.....</i>	293
10.3.2	<i>Practical implications.....</i>	296
10.4	LIMITATIONS AND FUTURE RESEARCH DIRECTIONS .....	298

<b>REFERENCES.....</b>	<b>302</b>
<b>APPENDICES.....</b>	<b>326</b>
APPENDIX 1 LITERATURE REVIEW 4: KNOWLEDGE TRANSFERRING AND LEARNING IN THE INNOVATION PROCESS.....	326
<i>Introduction.....</i>	326
<i>Knowledge management strategy.....</i>	326
<i>Knowledge codification antecedents and process.....</i>	327
<i>Knowledge personalisation.....</i>	329
<i>Knowledge bases.....</i>	330
<i>The knowledge base in the creative industries.....</i>	331
<i>The importance of learning from projects.....</i>	332
<i>Organisation learning.....</i>	334
<i>Knowledge conversion processes.....</i>	335
<i>Knowledge transfer.....</i>	336
<i>Conclusion.....</i>	339
APPENDIX 2 RESEARCH RESULT 4: KNOWLEDGE TRANSFERRING AND LEARNING IN THE INNOVATION PROCESS.....	340
<i>Introduction.....</i>	340
<i>Knowledge transferring between agencies and clients.....</i>	340
<i>Learning from projects.....</i>	350
<i>How to learn from projects.....</i>	351
<i>What to learn from projects.....</i>	354
<i>Knowledge Sharing.....</i>	360
<i>How to share.....</i>	361
<i>Knowledge sharing with other account teams.....</i>	365
<i>Knowledge sharing difficulties.....</i>	368
<i>Knowledge Management Strategy.....</i>	371
<i>Conclusion.....</i>	372
APPENDIX 3 THE DEFINITION OF CO-CREATION AND CO-PRODUCTION.....	374
APPENDIX 4 THE FOUR CORE CREATIVITY RELATED AWARDS IN ADVERTISING.....	378
APPENDIX 3 THE INTERVIEW INFORMATION.....	379
APPENDIX 6 SEMI-STRUCTURED INTERVIEW PROTOCOL.....	384
APPENDIX 7 INFORMATION PAGE SENT OUT TO INTERVIEWEES.....	387
APPENDIX 8 CONSENT FORM SIGNED BY INTERVIEWEES.....	390

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(Including footnotes but excluding references and appendices)

## List of Figures

Figure 1.1 Thesis structure.....	29
Figure 3.1 The linear model and parallel model of service development stages .....	50
Figure 3.2 Joint problem solving as value co-creation in knowledge intensive services .....	64
Figure 3.3 The "Touchpoints" between KIBS firms and clients.....	66
Figure 3.4 Actual and desired level of KIBS co-production .....	71
Figure 4.1 The list of the organisational forms .....	79
Figure 5.1 The stages of developing advertising project.....	106
Figure 6.1 Conceptual framework.....	116
Figure 7.1 The visualisation of the word count.....	138
Figure 7.2 Service innovation dimensions in advertising (Wheel model).....	165
Figure 8.1 The detailed stages of the advertising service innovation process .....	180
Figure 8.2 Service innovation process.....	184
Figure 8.3 The innovation model .....	187
Figure 8.4 The stages of confirming the media channels .....	189
Figure 8.5 The role and contribution of clients in the innovation process .....	228
Figure 8.6 The intensity of co-creation across the innovation process .....	230
Figure 8.7 The nature of interaction approaches.....	235
Figure 9.1 KIBS project innovativeness.....	250
Figure 9.2 KIBS project innovativeness deconstructed.....	257
Figure 9.3 The analytical framework of KIBS project innovativeness .....	259
Figure 9.4 Typology of project development in a KIBS firm.....	277
Figure 10.1 The revised conceptual framework.....	283



## **List of Figures in Appendices**

Figure-appendix 1 Model of knowledge codification.....	328
Figure-appendix 2 The role of participants in knowledge transferring .....	345
Figure-appendix 3 Knowledge flows in the innovation process .....	347
Figure-appendix 4 How knowledge is used and transferred in the innovation process .....	349
Figure-appendix 5 Knowledge transferring between projects .....	367
Figure-appendix 6 Learning and knowledge sharing .....	370

## List of Tables

Table 2.1 Innovation definitions .....	33
Table 2.2 The definition of KIBS.....	39
Table 3.1. The input from customers in new service development stages .....	51
Table 3.2 The existing new service development models .....	53
Table 5.1 The advantages and disadvantages of two different types of advertising agencies.....	97
Table 5.2 The stages of developing advertising projects.....	105
Table 6.1 An analytical framework around research questions .....	120
Table 6.2 The case selection criteria .....	126
Table 6.3 The selected companies by three core criteria.....	127
Table 6.4 The key respondents.....	128
Table 6.5 The general information of the seven companies .....	130
Table 6.6 The analysis themes .....	131
Table 7.1 The word count of the key descriptive words mentioned by interviewees ...	137
Table 7.2 The word count of the key elements mentioned by interviewees.....	137
Table 7.3 The key feature of advertising innovation.....	154
Table 7.4 Proportion of interviewees' answers from different types of companies.....	157
Table 7.5 Fit the main elements of advertising innovation into den Hertog's model ...	159
Table 8.1 The stages identified and the activities performed in each stage.....	169
Table 8.2 The main stages of new advertisement development.....	182
Table 8.3 The four different patterns of client involvement in the creative process.....	213
Table 8.4 The intensity of co-creation.....	230
Table 8.5 The elaboration of interaction approaches .....	233
Table 8.6 The activities performed and roles played by clients and suppliers in the co-creation process .....	243

Table 9.1 The novelty degree of the project problem itself .....	248
Table 9.2 The level of solution innovativeness .....	249
Table 9.3 The level of KIBS project innovativeness .....	250
Table 9.4 The comparison between routine projects and innovative projects .....	276
Table 10.1 The propositions of project innovativeness in KIBS influences on managing new service development process.....	301

## **List of Abbreviations**

CIS	Community Innovation Survey
C-KIBS	Creative Knowledge-Intensive Business Services
CoPS	Complex Products and Systems
DCMS	Department for Culture, Media and Sport
KIBS	Knowledge-Intensive Business Services
KPI	Key Performance Indicator
NSD	New Service Development
OECD	Organisation for Economic Co-operation and Development
P-KIBS	Traditional Professional Services
PMI	Project Management Institution
PBO	Project-Based Organisation
T-KIBS	Technology-Based Knowledge-Intensive Business Services
UK	United Kingdom

## **Abstract**

### **Managing knowledge and co-creation in service innovation: the case of the advertising industry**

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Research focusing on service innovation has seen a significant growth in the last two decades, yet the research on KIBS innovation – and especially on innovation in the creative industries, like advertising – remains rather limited. Due to the increasingly competitive business environment, how KIBS firms co-create with their clients to develop more innovative products or services is becoming more important. Therefore, this research uses the UK advertising industry as a basis to explore the nature of advertising innovation, the service innovation process and the co-creation within it, and how KIBS project innovativeness influences new service development.

The literature on service innovation, co-creation and innovativeness involved in developing services or products provides the theoretical foundation for this research. It uses multiple case studies methodology and is based on 45 interviews with advertising managers. The findings of this thesis can be divided into three key areas. First, this study conceptualises the advertising innovation and advertising innovation dimensions and identifies the importance of content innovation and two-sided interface in advertising innovation.

Second, the innovation process in the advertising industry can be divided into five phases: the problem diagnosis phase, the creative process, the production phase, the commercialisation phase, and the evaluation and learning phase. (In more detail, the innovation process can be divided into fourteen development stages: client brief, understanding client business, problem diagnosis, strategy planning, creative briefing, idea generation, idea testing, idea selection, idea amplification, production, testing, launch, evaluation, and learning.) This research examines what is meant by co-creation, and identifies how co-creation changes over the course of the service innovation process - where co-creation activities and tasks, and the roles of service firms and their clients, vary across stages of service production. It finds that co-creation between advertising companies and their clients follows a ‘W-shaped’ curve pattern, with the most intense co-creation in the problem diagnosis phase and the least in the production phase. (The practitioners in these KIBS assert that having too much co-creation activities in the idea generation stage tends to develop uncreative ideas.)

Third, as the tasks of KIBS are to fuse generic knowledge with local and special knowledge related to specific problems, to develop problem solutions for their clients, this study conceptualises KIBS project innovativeness as involving two parameters: (1) the knowledge and experience of the problem itself (which relates to problem novelty); (2) the knowledge and experience of developing innovative solutions (solution innovativeness), and explores how KIBS project innovativeness influences new service development. Based on the analysis of KIBS project innovativeness, this study develops a typology of project development in KIBS firms, which includes four types of projects: routine project, new project, solution-led project, and innovative project.

This research contributes to understanding the nature of service innovation and co-creation by providing a more thorough understanding of the role of co-creation in the overall new service development process. It also shapes our understanding of KIBS project innovativeness and how it influences new service development.

## **Declaration**

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning;

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Fengjie Pan (Chinese, born 1991) earned an MPhil in Business and Management from Alliance Manchester Business School, University of Manchester, in 2014 after she graduated with Bachelor degree in Business Administration Management (2013). She became very interested in service innovation, co-creation, open innovation, and technology throughout her MPhil study. Consequently, she entered the full-time PhD programme in Manchester Institute of Innovation Research, Alliance Manchester Business School, the University of Manchester in September 2014.

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Fengjie has presented her PhD research in several conferences, notably La Londe Service Conference 2016, DRUID 2017, R&D Management Conference 2017, BAM Conference 2017. Currently she is working together with Prof. Ian Miles and Mr. Hugh Cameron to publish some her PhD research findings.



## **Commercial Confidentiality**

This research was conducted with the assistance and help of 25 advertising companies. In the work, these companies are identified by the code C1, C2.....C25, in order to anonymise the information they provided. Some of the information was obtained from company websites. In order to maintain anonymity, these websites have not been identified as sources. My thanks to all the interviewees for their assistance with this research. They must remain anonymous for reasons of commercial confidentiality.

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# 1 Introduction

## 1.1 Introduction

Reflecting the growing importance of service innovation in the changing and competitive environment, research focusing on services, service innovation or new service development has seen significant growth in the last two decades (Biemans et al., 2015; Carlborg et al., 2014; Miles, 2016; Papastathopoulou and Hultink, 2012b; Randhawa and Scerri, 2015). Among these studies, knowledge-intensive business services (KIBS) have been given a lot of attention in service innovation research; not least because these sectors are widely recognised to be more innovative than many other services and manufacturing sectors (Miles, 2005; Muller and Doloreux, 2009). Research on KIBS innovation – and especially on innovation in the creative industries, like advertising - is still very limited (Miles and Green, 2008). According to the research of Miles and Green (2008), the high levels of innovation activity is characteristic of the advertising industry, however professionals within the sector do not recognise it as such. Additionally, in light of the research of Chapain et al. (2010), creative industries have a higher level of innovation than many other high-innovation sectors. Although through the report of *'Hidden innovation in the creative industries'* an increasing number of researchers are paying attention to innovation in the creative industries, the research in this area remains underdeveloped when compared with other KIBS industries. Therefore, the advertising industry is chosen as the research subject.

Because of the ambiguous nature of services, it is difficult to define precisely what aspects of a renewed service offering can be seen as innovative (Janssen et al., 2015), reflecting the ill-defined nature of service innovation (Flikkema et al., 2007; Ostrom et al., 2010; Snyder et al., 2016; Toivonen and Tuominen, 2009; Witell et al., 2016). There are several service innovation models (den Hertog, 2000; den Hertog et al., 2010; Miles and Green, 2008) existing in the literature, but the nature of advertising innovation remains unknown. In addition, these models focus more on the organisation, the process and the development of new types of service (new service business line or change/improve existing business line); they do not emphasise the dimensions in developing specific service products. The dimensions proposed by them delineate the possible areas service innovation can occur in a business. Changes in these dimensions

will lead to one or more new service functions or improvement of the existing service functions to the firm. Also, these service innovation models are not based on the advertising industry. Therefore, this study will explore the nature of advertising innovation.

As the business environment is becoming increasingly competitive, co-creation has been recognised as an effective approach to developing new services or new products. Many studies argue that having a customer-oriented process is likely to produce superior service innovation (Alam and Perry, 2002; Slater and Narver, 1994a) and to create more innovation opportunities (Ranjan and Read, 2016). Nevertheless, co-creation is still an underdeveloped research area (Zhang and Chen, 2008), especially in how to formalise the co-creation process (Payne et al., 2008) and to assess methodologies that use techniques to involve customers in co-creation (Durugbo and Pawar, 2014). Many studies have investigated the importance and the collaborative nature of value creation, but empirical studies investigating the interaction process and the joint activities remain underdeveloped (Grönroos, 2011; Matthing et al., 2004; Payne et al., 2008; Vargo and Lusch, 2008).

According to some studies (Asheim and Coenen, 2005; Miles et al., 1995), KIBS firms typically learn from practices and one of the core elements of their businesses is the management of knowledge exchanges with clients (Scarso and Bolisani, 2012). KIBS companies are characterised by their professional knowledge and skills, thus their human resources undertake significant roles in their service innovation activities (Cavusgil et al., 2003; Freel, 2006). Innovation in KIBS is predominantly about the recombination or development of existing knowledge (Asheim, 2005), thus it is important for firms to know how to learn from their projects through the co-creation process.

In KIBS firms, project-based work is the main work organisation form since they need a high degree of flexibility to provide client-specific and comprehensive solutions (DeFillippi and Arthur, 1998; Strambach, 2008). Therefore, KIBS firms principally work on a project base and are characterised by project-based, *ad hoc* new knowledge development (Strambach, 2008). In KIBS firms, their work spans different extent of innovativeness and novelty (Salter and Tether, 2014). Many of their projects involve the application of the relatively routine knowledge, while other projects are more dependent

on new solutions (Salter and Tether, 2014). The innovation which occurs in KIBS is mainly by applying existing knowledge or by making new combinations of knowledge (Asheim, 2005, Hansen et al., 2005). The tasks of KIBS are to combine generic knowledge with local and special knowledge related to specific problems to develop problem solutions for their clients (Miles, 2005). This indicates that KIBS firms need to take both their knowledge of the project problem and the knowledge of how to develop innovative solutions into consideration when they have a project. Since the characteristics of projects and the requirements of solutions are different, the amount and the degree of new knowledge required for different projects will vary. Thus, to the service provider, the innovativeness involved in projects is likely to be different. This means some projects are routine and others are innovative. Routine projects have a low level of project innovativeness, while innovative projects have a high level of project innovativeness. Nikolova et al. (2009) note that the innovativeness of projects tends to influence the nature of the interaction between clients and service suppliers and the procedure of developing the solutions. Although the term project innovativeness is used in some studies (Gemünden et al., 2005; Kelley and Lee, 2010; Hüsigg, 2012), the meaning of the term is limited to the consideration of the innovation of the project product or project solution and does not take the uniqueness of KIBS projects into account. Therefore, it is imperative to clarify the meaning of project innovativeness in KIBS firms and find out the influence of KIBS project innovativeness in new service development.

## **1.2 The importance of the study**

In 1998, the UK Department for Culture, Media and Sport (DCMS) defined the creative industries as *“those industries which have their origin in individual creativity, skill and talent and which have the potential for wealth and job creation through the generation and exploitation of intellectual property”*. Based on this definition, DCMS proposed thirteen service sectors belonging to the category of the creative industries: advertising, architecture, art and antiques, crafts, design, designer fashion, film, leisure software, music, performing arts, publishing, software, and television and radio. However, such definition and the classification of creative industries induced some controversy, for instance, whether software industry should be included or not (Bakhshi et al., 2013).

The UK creative industries were estimated to contribute £84.1 billion to Gross Value Added (GVA) in 2014 and generated 1.9 million jobs, which suggests that the creative industries are crucial to the UK economy development (The creative industries, 2016). In the UK, there are around 2.5 million people working for the creative economy (much more than in the financial, advanced manufacturing and construction industries), which constitutes at least 9.7 per cent of the UK's Gross Value Added (Bakhshi et al., 2013). This reflects the talent of the Britain's creative people and entrepreneurs (Bakhshi et al., 2013). According to the report of the UK creative industries, more than 90% of Members of the UK Parliament agree that the UK creative industries plays a vital important role in the future economic growth and in the creation of new jobs (The Creative Industries, 2016).

Creative industries are characterised by a high level of innovation activity (Miles and Green, 2008). The advertising industry is one of the important industries among the category of creative industries and the UK's creative industries are largely dependent on the advertising industry (DCMS, 2011; Deloitte, 2013). The advertising services create and support more than 550,000 jobs in the UK (Deloitte, 2013). In addition, in the UK, the advertising export growth rate far surpasses the creative industries and the wider economy. For example, the UK advertising export growth was at 12.7% in 2012-2013, which is markedly higher than the export growth in the overall UK services and creative industries, reaching 4.5% and 3.5% respectively (Advertising Association, 2016). Therefore, the advertising industry is critical to the development of the UK economy. The UK is regarded as *"the most important centre for advertising in Europe"* and is competing for global industry leadership with the USA (Advertising Association, 2016). Additionally, the UK advertising industry is expected to worth £20 billion in revenue this year (PWC, 2017). All these reflect the importance of the UK advertising industry and its leadership in the international markets. Therefore, the UK advertising industry, which is characterised by their creativity and whose customers are different from end-users of their service product, is chosen as the research subject. Studying the UK advertising industry is expected to not only help the UK advertising industry understand and solve their innovation related issues, but also help other countries develop their advertising industries.

### 1.3 Theoretical standpoint

According to Miles et al. (1995), the advertising service is one type of KIBS, yet the studies concerned with advertising innovation are rather rare (Mile and Green, 2008). Therefore, the literature reviewed in this research primarily focuses on KIBS. In terms of the nature of service innovation, the models proposed by den Hertog (2000), den Hertog, et. al. (2010) and Miles and Green (2008), lay the foundation for a multidimensional perspective to explore innovation in advertising.

According to the research of Gadrey and Gallouj (1998), most KIBS innovations are *ad hoc*. Many scholars have demonstrated that the client plays an important role in KIBS firms' innovation process (Alam and Perry, 2002; Slater and Narver, 1994a; Sundbo and Toivonen, 2011), highlighting the interactivity attribute of KIBS firms' innovation process. Therefore, in order to understand the innovation process in KIBS and how service firms interact with their clients, the *demarcationist* approach proposed by Coombs and Miles (2000) is chosen to guide the related analysis. The *demarcationist* approach emphasises service activities' specific characteristics and argues for the generation and development of frameworks and concepts with the consideration of peculiar features of service products and process. In fact, the "service-oriented" approaches, proposed by Sundbo and Gallouj (2000), is very similar to the *demarcationist* approach, could also be used in this thesis.

The third theoretical area reflects how we view the difference of innovativeness in projects. The contingency theory (Burns and Stalker, 1961; Lawrence and Lorsch, 1967), stressing the goodness of fit between structural variables and external conditions, is used to study how the difference of KIBS project innovativeness influences the development stages, the competences required in the process, the activities performed, people involved, and the co-creation between service companies and clients.

The tasks of KIBS are to combine generic knowledge with local and special knowledge related to specific problems to develop problem solutions for their clients (Miles, 2005) and the innovation in KIBS is mainly about the recombination or development of existing knowledge (Asheim, 2005). Therefore, knowledge plays the core role in KIBS. Thus, another view applied in this study is the knowledge-based view. According to this view, knowledge can be thought of as the most strategically significant firm resources

(Grant, 1996). Nahapiet and Ghoshal (1998) argue that new knowledge is created by making new combinations and exchange from existing knowledge, which may reside *“in the form of explicit and tacit knowledge and knowing capability”*.

#### **1.4 Gaps, objectives, and research questions**

By reviewing the literature related to KIBS, service innovation, co-creation, innovation process, KIBS project innovativeness, and knowledge transfer, this thesis has three main objectives.

As the studies concerned with advertising innovation are rather rare, we have little understanding about the nature of advertising innovation. In order to address this gap, the first objective is to explore the nature of advertising innovation.

With the advanced development of technology, the importance of client involvement in the innovation process has been recognised by an increasing number of people. However, in terms of the role of client involvement in different projects and different stages in the innovation process, there are relatively few studies. Clients understand their projects the most, thus, co-creating with clients is being regarded as an important approach for advertising companies to developing better innovative ideas. However, there is a huge gap of understanding the co-creation practices. Therefore, the second objective is to conceptualise the innovation process and new service development stages, to find out advertising professionals' attitudes towards co-creation and how they conduct co-creation (the co-creation process) in the innovation process, to identify the key activities and roles performed by advertising clients and suppliers in the interactive innovation process, and to understand the nature and features of co-creation over the course of the service encounter.

The third gap is concerned with the innovativeness of projects. In KIBS, the tasks are to combine generic knowledge with local and special knowledge related to specific problems to generate solutions for clients and the innovation is mainly about the recombination or development of knowledge from existing knowledge bases or external knowledge bases. KIBS firms have both routine projects and innovative projects, which means the new knowledge required to understand project problems and develop solutions is different. By reviewing the literature, we find the concept of project innovativeness only mentioned by a few scholars in product development projects and



refers to the innovativeness in the developed product, which means the term–project innovativeness used by them has the similar meaning of product innovativeness. Therefore, they do not take the project characteristics into consideration. KIBS firms need to utilise both the knowledge of the problem and the solution together to complete project tasks. Therefore, a formal conceptualisation and exploration of project innovativeness in KIBS is lacking. Hence, the third objective is to conceptualise KIBS project innovativeness and to explore how KIBS project innovativeness influences the new service development stages, the senior resources required in the process, and the co-creation between service companies and clients.

Driven by these objectives, the topic of this research focuses on new service development and co-creation in the advertising innovation process. Therefore, the main research question of this thesis is:

**How do we conceptualise KIBS innovation process and develop co-creation within it?**

The sub-questions are divided into three sections: the nature of advertising innovation, the innovation process and the co-creation within it, and the conceptualisation of KIBS project innovativeness and its influences on the innovation process:

- What is advertising innovation and how is it developed?
- How do advertising agencies co-create with clients in the innovation process?
- How does KIBS project innovativeness influence the management of the innovation process and of co-creation between advertising firms and clients?

## **1.5 Research context**

As discussed above, the UK advertising industry plays an important role in its economy and takes the leadership position in the world. In order to shape both the scholars' and practitioners' understanding of advertising innovation and the new advertising service development and to facilitate the UK advertising industry development, this research is conducted in the UK. Studying the UK advertising industry could help the advertising firms in other countries to learn from the UK advertising companies. Yet, focusing on one country does limit the generalisability of the research findings to some extent.

In the UK advertising industry, most advertising firms are situated in London (Pratt, 2006). In light of the research of Pratt (2006), in the UK, London advertising firms dominate the market for national campaigns, while regional agencies mostly do businesses in the regional markets. Outside London, another important location where gathers many advertising firms is Manchester (Chapain et al., 2010). Therefore, this research chooses these two locations (London and Manchester) to conduct the fieldwork. The investigated firms in this thesis mainly include two different types: the networking grouped advertising firms and the independent advertising firms.

## **1.6 The research approach in brief**

Since the literature concerning innovation in the advertising industry is rather rare, this study is an exploratory study. In accordance with the definition of Stebbins (2001), exploratory research is undertaken in a prearranged, systematic, and purposive way to maximise our discovery and understanding of a social life area. Because the purposes of this research are to understand advertising innovation and the issues of co-creation, learning in the innovation process, and KIBS project innovativeness, a qualitative research method is regarded as an appropriate way to operationalise it.

The exploration of the study starts with an extensive literature review on service innovation, KIBS, the service innovation process, co-creation, KIBS project innovativeness, and learning, with the emphasis on services in the creative industries and on KIBS. As the advertising service is one of the sub-sections of KIBS, reviewing the literature based on KIBS will provide us some guidance in understanding the above issues in the advertising industry.

Based upon these literature strands, this thesis considers the interaction between advertising firms and clients as the key to develop innovative and effective advertising solutions and to identify the knowledge exchange between them<sup>1</sup>. Such interaction can be regarded as a source of innovation, which manifests its significant role in the innovation process. Co-creation is conceptualised as the various degrees of active involvement of customers in the upstream activities in the innovation process, such as creation/ideation, design, elaboration, production, and the like, to create something new

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<sup>1</sup> Because of word count limitation of PhD thesis, the literature review and discussion of knowledge transferring are in appendices.

together (Section 3.4.3). KIBS project innovativeness can be conceptualised as the novelty of the project to the service company and is related to whether the service company has the relevant experience of operating the project (Sections 4.5.1 and 9.2).

The empirical data of the research was mainly collected from: semi-structured interviews with directors, archival data from databases, company websites, company reports, articles, web materials, etc. In addition, structured interviews were utilised to measure and the intensity of co-creation between advertising firms and clients in the innovation process.

## **1.7 Thesis structure**

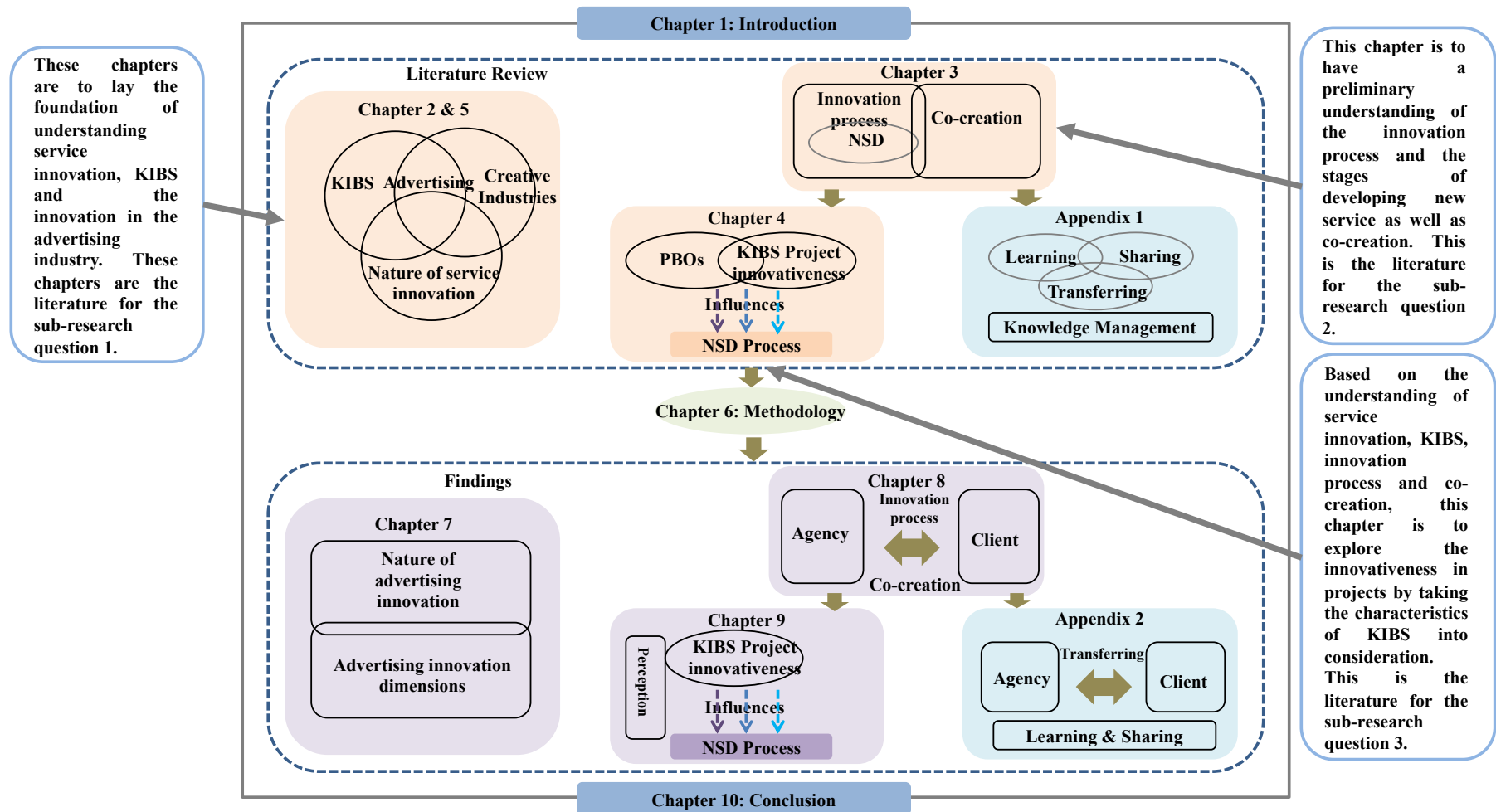
This thesis is constituted by five components, which are the introduction (Chapter 1), the literature review related to service innovation, innovation process and co-creation, KIBS project innovativeness, project learning and knowledge transferring in the innovation process, and the overview of the advertising industry (Chapters 2-5 & Appendix 1), the methodology and the conceptual framework (Chapter 6), the data analysis (Chapters 7-9 & Appendix 2), and the conclusion and discussion (Chapter 10).

Generally, Chapter 2 and Chapter 5 lay the foundation of the thesis. As discussed above, the main research question of this thesis is to conceptualise KIBS innovation process based on the advertising industry and develop co-creation within it. Yet, before we conceptualise the innovation process and explore the co-creation practice in detail, we need to have a comprehensive understanding of the advertising innovation and the nature of advertising innovation. Because there are few studies researching the advertising innovation, this thesis needs to explore the nature of advertising innovation before exploring the core research question. Therefore, Chapter 2 and Chapter 5 are to build the foundation of understanding the innovation in advertising and co-creation between service suppliers and clients.

After having a preliminary understanding of service innovation, innovation in the advertising industry and KIBS, Chapter 3 is the literature review for exploring the main research question of this thesis. Since the primary aim of this thesis is to explore how service suppliers and clients co-create across the innovation process in terms of the activities played, roles performed and interaction approaches used by them, it is necessary to understand the innovation process that advertising firms use to develop the

new service. Therefore, Chapter 3 begins with a review of the innovation process in services and the detailed stages included in the innovation process. After having a preliminary understanding of the innovation process in services, Chapter 3 reviews the literature about co-creation regarding its importance, definition, the role of customers, the frequency of client involvement, and the communication approaches used in the innovation process. Since KIBS firms are project-based organisations, the approach that firms use to manage the innovation process and how they co-create with their clients tends to be related to the characteristics of clients and projects. Therefore, Chapter 4 is to review the innovativeness in projects and the potential effects of KIBS project innovativeness on the innovation process of new service development and the co-creation with clients. Therefore, the following figure shows the thesis structure.

Figure 1.1 Thesis structure



Source: Author

**Chapter 1** introduces the thesis, starting with the introduction of the background information of the thesis and the illustration of the research rationale. It proceeds by explaining the theoretical standpoints used in the thesis. After that, it reveals the gaps, objectives, and research questions, the research context and the research methodology in brief.

**Chapter 2** delineates the nature of innovation in services, situating it in the context of the creative services and KIBS. It briefly reviews the service innovation dimensions in KIBS and the creative industries, the types of KIBS, and the types of innovation.

**Chapter 3** reviews the literature about the conceptualisation of service innovation process and the importance of client involvement in the innovation process and defines the meaning of co-creation in KIBS. It also briefly reviews the learning and knowledge transferring in the innovation process.

**Chapter 4** elaborates the concept – KIBS project innovativeness briefly and reviews the literature concerning project-based organisations, innovativeness and the possible influences caused by the difference of project innovativeness.

**Chapter 5** reviews the literature of advertising, the nature of advertising, advertising innovation, and the trend in advertising. The aim of this chapter is to show a general picture of advertising services and the innovation in advertising.

**Chapter 6** begins with the aim to integrate the literature covered in Chapters 2-5 and appendix 1 to develop a conceptual framework. It then elaborates the methodology and research methods used and articulates the rationale of using the research method. It explains how to collect the data in detail and lists the data sources of the research.

**Chapter 7** is the first chapter of the data analysis. It starts with the investigation of advertising managers' perception of advertising innovation and then conceptualises the advertising innovation dimensions. It ends with the discussion of differences between the model generalised in this thesis and the model proposed by den Hertog et al. (2010).

**Chapter 8** is the second chapter of the data analysis. It conceptualises the new service development model and the service innovation process. Then, based on the new service development model developed, it investigates managers' perception of co-creation and

analyses how the service provider co-creates with their client. It then reveals that the intensity of co-creation across the innovation process follows a ‘W-shaped’ curve pattern. It also briefly sums the learning in the innovation process.

**Chapter 9** is the third chapter of the data analysis. It links with the review of project innovativeness in Chapter 4 to conceptualise the KIBS project innovativeness, to investigate the practitioners’ perception of KIBS project innovativeness and to analyse the influences of KIBS project innovativeness on new service development in new service development stages, project participants, co-creation, and communication approaches.

**Chapter 10** reviews the findings and discussions from the proceeding chapters, presents the contributions and limitations of this research. Then, it proposes some implications for advertising companies in how to manage the innovation process and their co-creation with their clients. It summarises the whole thesis by the discussion of future research directions.

## **2 Literature Review 1: Service Innovation and KIBS**

### **2.1 Introduction**

The following chapter<sup>2</sup> is to provide a preliminary understanding of service innovation. Section 2.2 begins with the definition of Schumpeter (1934), and then introduces some well-accepted innovation definitions. Then, section 2.2.2 reviews the types of innovation, including the classification proposed for innovation in products and the classification developed for innovation in services. Section 2.3 introduces service innovation and three service innovation models. The review in section 2.3 is to provide a fundamental understanding of the nature of service innovation. Section 2.4 outlines some key definitions of KIBS and introduces the classification of KIBS. Section 2.5 is the summary of this chapter.

### **2.2 Innovation**

#### **2.2.1 The definition of innovation**

Although many economists have studied the role of technological change in economic development, Schumpeter (1934) can be regarded as the pioneer in the analysis of innovation. At that moment, Schumpeter (1934) conceptualised innovation as:

*“The introduction of new goods...the introduction of a new method of production...the opening of a new market...the conquest of a new source of supply of raw materials or half-manufactured goods...and the carrying out of a new organization of any industry.” (p.66)*

His definition covers five different types of innovation. Since the introduction by Schumpeter (1934), there have been numerous definitions of what innovation means. Table 2.1 displays some well-accepted definitions.

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<sup>2</sup> Part of this section draws upon the reviews and ideas on the author’s MPhil thesis.



**Table 2.1 Innovation definitions**

Scholars	Definitions of innovation
Thompson (1965)	<i>“the generation, acceptance and implementation of new ideas, processes products or services”</i> (p. 2).
Kanter (1983)	<i>“the process of bringing any new, problem solving idea into use.....innovation is the generation, acceptance, and implementation of new ideas, processes, products, or services.”</i> (p. 20)
Van de Ven (1986)	<i>“the development and implementation of new ideas by people who over time engage in transactions with others with an institutional order”</i> (p. 590).
OECD (2005a)	<i>“the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations”</i> (p. 46).

Source: Author

From these definitions, we can see that they have similarities and differences. For example, the definition by Thompson (1965) highlights organisations’ capability of changing, while the definition by Van de Ven (1986) stresses the newness of services or products to the people involved. Also, we can find two fundamental elements of innovation, which are ‘idea generation’ and ‘idea implementation’. In the definition developed by OECD (2005a), the minimum requirement for whether a process, a marketing method, an organisational method, or a product can be treated as an innovation is dependent on whether it is notably improved or new to the firm. Such products, processes, methods, or ideas do not have to be proposed or developed by the firm and can also be developed by other organisations; what matters to the firm is whether it is new rather than where it originates from.

### 2.2.2 Types of innovation

In the research history of innovation studies, the standard classification of innovation is to categorise it as process innovation and product innovation. From 1960s to 1990s,

many researchers studied these two types of innovation (Abernathy and Clark, 1985; Utterback and Abernathy, 1975; Utterback and Suarez, 1993), whereas almost all of them concentrated on the research of industrial innovation. Another traditional way of categorising innovation is by classifying it as radical innovation and incremental innovation. Such classification is based on the innovation's "*radicalness*" compared to the current technology (Freeman and Soete, 1997). However, these two types of traditional classification methods are more appropriate to be applied in developing goods rather than in developing services.

To highlight the wide range of changes occurring in firm activities, OECD (2005a) classifies innovation as process innovation, product innovation, marketing innovation and organisational innovation. As this thesis is primarily concerned with the innovation in services, it is worth specifying the meanings of these different types of innovation in services. Product innovation is defined as the developed goods or services which are markedly improved or new to its existing or potential users. The term "product" includes both goods and services. In services, product innovation can have three forms: developing an entirely new service, adding some new functions or characteristics to the existing services, and having significant improvements in the existing services (e.g. improving efficiency).

Process innovation is defined as the implementation of significantly improved or new methods in production or delivery. In services, process innovation is concerned with the utilisation of significantly improved or new approaches to creating or providing services. For example, a consultancy firm develops a new technique to manage project.

Marketing innovation refers to the implementation of a new marketing approach in product placement, pricing, product promotion, product design, or packaging. Marketing innovation includes the utilisation of a new price strategy to commercialise services or products, the application of new marketing methods in product promotion, and the remarkable changes in product design.

Organisational innovation is about the implementation of a new organisational method in a company's workplace (new method to design employees' responsibility), business practice (new method in organising procedures and routines for carrying out work) or its external relations (new ways to organise the relationship with public institutions or

other firms). The aim of organisational innovation is to enhance workplace satisfaction, decrease firms' transaction costs or administration costs to improve performance, decrease supply expense or obtain access to some non-codified external knowledge.

Apart from the above classification of different types of innovation, many researchers have proposed new categories of innovation based on services. For instance, Gadrey et al. (1995) have conceptualised four different types of service innovations in the context of financial services, which are 1) innovations in service products, 2) architectural innovations bundling or un-bundling existing service products, 3) innovations which are created by modifying an existing service product, and 4) innovations which occur in processes and organisation for an existing service product. Gadrey and Gallouj (1998) contend that the traditional typology of innovation – product and process innovation is inappropriate to be used in services, thus, based on a series of qualitative interviews, they proposed three new forms of innovation: *ad-hoc* innovation, new expertise-field innovation and formalisation innovation. Ad-hoc innovation represents unique solutions and needs to be co-produced with customers to solve the problem. New expertise-field innovation refers to innovation which involves a new domain of expertise. Formalisation innovation represents the innovation which attempts to make the service output less fuzzy through using mechanisms.

According to Gallouj and Savona (2010), innovation can be viewed as change happened in one or more characteristics (technical, service or competence). They point out that such changes are brought about by numerous operations, including addition, subtraction, association, dissociation or formatting. Then, based on these operations, a set of innovation 'models' can be identified, which are radical innovation, ameliorative innovation, incremental innovation, recombinative innovation, and formalised innovation (Gallouj and Savona, 2010; Gallouj and Weinstein, 1997). Radical innovation refers to the creation of new characteristics and competences. Ameliorative innovation denotes the increase of certain characteristic quality, but without any change in the competences' and characteristics' structure. Incremental innovation represents the addition of characteristics. Recombinative innovation refers to the dissociation and association of characteristics. Formalised innovation concerns the formatting and standardisation of characteristics. All these different types of classification of innovation in services are to reflect the peculiarity of services, yet these different

classifications also show that a systematic approach to classifying innovation in services is lacking.

Although many researchers have realised the importance and distinctiveness of service innovation, studies of service innovation remain underdeveloped. In addition, as most of the existing innovation concepts and theories are based on product innovation, developing new innovation concepts and theories based on service industries is likely to enhance our understanding of service innovation. Therefore, in order to have a clear understanding of service innovation, identifying the nature of service innovation is the first step of studying service innovation.

### **2.3 Service innovation**

The term-service innovation can be perceived as the successful creation of innovative solution (Janssen and den Hertog, 2016). Such solution should involve a certain extent of novelty. Miles (2009) defines service innovation as *“doing new or improved things”* or *“doing things in a new or improved way”*. This definition highlights two different types of service innovation: the innovation behaves in the service product and the innovation behaves in the process. Additionally, Toivonen and Tuominen (2009 p. 893) view service innovation as *“a new service or such a renewal of an existing service which is put into practice and which provides benefit to the organisation that has developed it”*. This definition highlights difference between invention and innovation. To be regarded as an innovation, it has to be commercialised. They also argue that the newness of service innovation should not be limited to the developed firm. Owing to the importance of services in the current global economy, the importance of service innovation (which is often associated with the research of Miles (1993) has been recognised by an increasing number of people. However, when reviewing innovation studies, most of them have been focused on manufacturing industry (Djellal et al., 2013; Lööf et al., 2001). This is related to the simultaneous and intangible nature of service innovation (de Jong and Vermeulen, 2003). Compared with the literature concerned with innovation based on manufacturing sectors, the literature on innovation in services has been fragmented and less empirically grounded (Gallouj and Savona, 2010). Compared with innovation in manufacturing firms, innovation in service firms is more oriented around project management and less relied on R&D departments and managers (Coombs and Miles, 2000) and pays more attention to customer experience (de Jong

and den Hertog, 2010), reflecting the importance of project management in service firms and the significance of customers in service innovation. Moreover, innovating service firms focus more on the management of external processes of innovation than manufacturing firms (de Jong and den Hertog, 2010). These show that research based on manufacturing firms cannot be uncritically applied to service firms and indicate that more research is required to help us understand service innovation related issues.

### **2.3.1 The nature of service innovation**

Although service innovation plays a significant role in economic development, the nature of service innovation is loosely defined (Flikkema et al., 2007; Ostrom et al., 2010; Snyder et al., 2016; Toivonen and Tuominen, 2009; Witell et al., 2016). The research of new service development has seen a growth since two decades ago (Miles, 2016), but because of the fuzzy nature of services, it is challenging to characterise a new service precisely or decide what element can be regarded as innovative in a renewed service offering (Janssen et al., 2015). However, identifying what makes services become innovative is the precondition of studying service innovation (Janssen et al., 2015). Recently, many scholars have adopted the multidimensional and varied nature of service innovation (Agarwal and Selen, 2011; Janssen et al., 2015). There are three fundamental models of service innovation dimensions.

At first, den Hertog (2000) proposed a four dimensional model to understand service innovation. The relevant dimensions are service concept, service delivery system, client interface, and technology. The service concept dimension refers to the newness of the new concept within a particular market rather than to the whole markets. The service delivery system dimension represents the changes that make service workers perform better and produce and deliver more innovative services. The changes in the way service firms engage with clients is the client interface dimension. The technology dimension helps service firms work more efficiently and develop more effective services (Miles, 2008). Regarding the characteristics of these four dimensions, service concept dimension is related to the intangible characteristic of service innovation; both client interaction and service delivery system stress the significance of interactions between service firms and their clients and the interactivity of service processes; technology emphasise the new IT innovation in service innovation (Miles, 2008). This service

innovation dimension model lays the foundation for a multidimensional conceptualisation of services (Janssen et al., 2015).

Based on the four dimensional service innovation model developed by den Hertog (2000), Miles and Green (2008) developed the “Diamond of Innovation” model to explore innovation in the creative industries. It includes the dimensions of cultural product, user interface, cultural concept, process production, delivery, and technology. This model highlights the importance of process production and cultural concept in innovation in the creative industries. Then den Hertog et al. (2010) proposed a six dimensional model to analyse service innovations in KIBS. This model is also based on the four-dimension service innovation model developed by den Hertog (2000) and has the dimensions of new service concept, new delivery system: technological, new delivery system: personnel, organisation, culture, new revenue model, new business partner, and new customer interaction. When comparing these two models, both have the innovation concept, customer interface, technology, and delivery channel, which implies the importance of these dimensions.

Essentially, both the diamond model and six-dimension model are closely related to the conceptualisation of innovation in advertising, but den Hertog’s six-dimension model is more inclusive and contains a wider range of dimensions, which implies that it can be applied into a diverse range of KIBS. Therefore, den Hertog’s six-dimension model will be used as a base to understand advertising innovation.

Though it is possible for a service business to innovate in a single dimension or in several dimensions, the change in one dimension often induces changes in other dimensions (den Hertog et al., 2010; Janssen and den Hertog, 2016). Among these innovation dimensions, changes occurring in the service concept are comparatively well perceivable, yet, renewal in other service elements tends to be easily overlooked (Janssen et al., 2015). Although innovation in services tend to be easily imitated, delivering the same service in different companies is rather hard as the change in one dimension requires the coordination of a wide range of related elements (Janssen and den Hertog, 2016). Although the above-mentioned models all focus on the conceptualisation of service innovation dimensions, neither of them identify the innovativeness difference of changes in these dimensions.

## 2.4 Knowledge-intensive business services (KIBS)

### 2.4.1 KIBS definition

Knowledge-Intensive Business Services (KIBS) refers to the services relying heavily on professional knowledge and is a terminology coined by Miles et al. (1995). KIBS firms' main clients are other businesses and are treated as primary sources of information and knowledge to their customers. KIBS can be users, carriers, or producers of new technology (Miles et al., 1995) and can be regarded as the source, carrier and facilitator of innovation (den Hertog, 2000). Since the introduction of KIBS in 1995 by Miles et al., many studies have tried to define this terminology. The following table 2.2 lists some of the recognised definitions.

**Table 2.2 The definition of KIBS**

(Miles et al., 1995)	<i>“Services that involved economic activities which are intended to result in the creation, accumulation or dissemination of knowledge.”</i>
(Miles, 2005)	<i>“Services that provide knowledge-intensive inputs to the business processes of other organisations.”</i>
(Toivonen, 2006)	<i>“Expert companies that provide services to other companies and organizations.”</i>
(den Hertog, 2000)	<i>“Private companies or organizations who rely heavily on professional knowledge, i.e. knowledge or expertise related to a specific (technical) discipline or (technical) functional-domain to supply intermediate products and services that are knowledge based.”</i>
(Bettencourt et al., 2002)	<i>“Enterprises whose primary value-added activities consist of the accumulation, creation, or dissemination of knowledge for the purpose of developing a customized service or product solution to satisfy the client's needs.”</i>

Source: Author

Therefore, from these definitions, we can recognise there are several important elements which are emphasised by all of them. Firstly, the main clients of KIBS are business customers (Miles, 2012), which means they mostly provide services for other organisations. Secondly, KIBS provide knowledge-intensive or professional knowledge to others, which indicates that they have a lot of highly educated individuals. Thirdly, the activities that these highly educated individuals usually involved in include the creation, accumulation and dissemination of knowledge. All these elements shape the characteristics of KIBS. However, as the definition of KIBS overlaps with the definition of professional service firms (Von Nordenflycht, 2010), in this study, some of the literature is based on professional service firms. Although the key role of KIBS is to solve problems for clients, they play varying roles in different types of services. Miles (2003) summarises that KIBS can act as the information provider, problem diagnoser, solution advisor, solution implementation facilitator, turnkey, and one-off service provider in different types of services.

#### **2.4.2 KIBS classification**

According to the above definition of KIBS, we can see that KIBS encompass a wide range of services. Miles et al. (1995) divided KIBS into two main categories: the ‘new’ technology based service firms (T-KIBS) and the ‘traditional’ professional services (P-KIBS). T-KIBS represent the services which are less professionalised and are related to new technologies, for example, computer networks/telematics, software, etc., whereas P-KIBS refers to services which rely on specialised knowledge, such as legal services, accountancy, marketing/advertising, etc. However, recently, there is a new category-C-KIBS has been distinguished, which were previously assimilated into T- or P-KIBS (Miles, 2012). C-KIBS refers to the services dealing with the knowledge of social affairs, cultural trends and aesthetics (Miles, 2012), such as market research, advertising, architecture, etc. In fact, the category of C-KIBS overlaps with the classification of creative industries which have listed in Chapter 1. This reflects the connection of the advertising industry to KIBS and creative industries. The advertising service is one of the overlapped services between KIBS and the services included in creative industries. Because most service innovation studies are based on KIBS, the literature reviewed in this thesis will be primarily from the research based on KIBS.



## **2.5 Conclusion**

Therefore, this research will take the den Hertog approach as the thesis starting point: multidimensional perspective is used to understand the nature of service innovation. The models proposed by den Hertog (2000), den Hertog et al. (2010) and Miles and Green (2008) are used to develop a rudimental understanding of the innovation in advertising, which is to guide the fieldwork. Based on these models, this research defines a new service as an offering which is not only new to a particular customer of the company, but which involves novel elements of service - new or improved features of the service concept, or new or improved delivery processes and customer interfaces (including, for example, new roles for the customer such as self-service activities, or new communication channels such as mobile technologies). Therefore, in this thesis, the term - service innovation and the term - new service development have the similar meaning. Both of them focus on the successful creation of an innovative service or an innovative solution.

### **3 Literature Review 2: Innovation Process, Customer Involvement and Co-creation**

#### **3.1 Introduction**

Based on the preliminary understanding of service innovation and the nature of service innovation in Chapter 2, the following chapter<sup>3</sup> reviews the most relevant literature to innovation process and co-creation, which constitutes the foundation and cornerstone of this research. Yet, most of the existing innovation processes are based on production innovation rather than service innovation. Due to the peculiarity of service innovation, investigating the innovation process in services will enhance our understanding of service innovation and service innovation process. Co-creation has attracted plenty attention in the last decade, yet very few studies investigate how clients engage in the process and how service providers manage the co-creation process. Also, a well-accepted definition of co-creation is lacking. Different researchers may have different understanding of the term. Therefore, defining the meaning of co-creation in this research is the first issue before any in-depth investigation is carried out.

Section 3.2 introduces the literature on innovation process and the importance of learning in KIBS. The review of the importance of learning in KIBS is to show the differences between KIBS and other services. Following on that, section 3.3 outlines the existing new service development models (stages). These two sections (section 3.2 and 3.3) lay the foundation of studying co-creation as the core of this thesis is to explore how service providers and clients co-create in the innovation process. Therefore, section 3.4 discusses the importance of customer involvement in the innovation process, the nature of co-creation, the possible benefits brought by co-creation, the “touchpoints” in the innovation process, the roles played by clients in the innovation process, the interaction intensity between service providers and clients, and the communication approaches. Section 3.4.3 reconceptualises co-creation. Then, section 3.4.12 focuses on the discussion of user-based service innovation to reflect the importance of users in the innovation process. Section 3.5 concludes this chapter.

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<sup>3</sup> Part of this section draws upon the reviews and ideas on the author’s MPhil thesis.

### **3.2 Innovation process**

In the last two decades, the research focusing on services, service innovation or new service development has seen a significant growth (Biemans et al., 2015; Papastathopoulou and Hultink, 2012a), but there is still little knowledge concerned with the innovation process of new service development (Adams et al., 2006; Drejer, 2004; Droege et al., 2009; Nijssen et al., 2006). When comparing with product innovation process, the service innovation process is more complicated, and the service development has to involve customers in the process, which also increases the complexity of the process (Ennew and Binks, 1996). Additionally, among the studies concerning new service development, the findings lack consensus as many of which are based on the concepts, methods, frameworks developed for new product development to understand new service development (Biemans et al., 2015). With this in mind, the current research fails to provide consistent suggestions to managers of the question about how to most effectively and efficiently manage the new service development processes (Biemans et al., 2015). As with the description of Menor and Roth (2007), the existing theories and understanding of the strategies, processes, tactics for new service development is inadequate. Therefore, one of the purposes of this thesis is to conceptualise the service innovation process and new service development model. The following is the literature concerned with service innovation processes and new service development models. In this thesis, the term - service innovation and the term - new service development have the similar meaning. In addition, the new service development model or the new service development process refers to the detailed stages of innovation process for developing new services.

#### **3.2.1 Reverse product cycle**

Among the studies of innovation in services, one of the widely spread theories is the “reverse product cycle”, proposed by Barras (1986). The theory is about the process of applying new technology in service industries. It begins with process improvements with the aim to facilitate the efficiency of service production. Only after the process improvements can the service companies conduct process innovation to improve the quality of existing services. Then, the last stage is the creation of new service. However, in manufacturing industries, companies begin with product innovation, then the process innovation for quality and process improvements for efficiency. Therefore, the account

of Barras reverses the traditional account of product cycle. However, as the argument of Miles (2016), the “reverse product cycle” does not illustrate the innovation trajectory once service companies have already become technology-intensive.

### **3.2.2 Innovation processes**

According to the view of Zhang and Tao (2007), innovation process plays a critical role in determining the success of innovation. In order to reduce the uncertainty and risk of service innovation development, one way is to control the innovation process effectively. However, Voss (1992) claims that innovation in service industries is not a linear process. Miles (2012) also points out that most KIBS activities are tailored for specific clients, denoting that their innovation processes are hard to organise in a linear way and are difficult to have the same process among different projects. In service sectors, most firms have difficulty in formalising and organising the innovation process in a linear and systematic way (Sundbo and Gallouj, 2002). Despite the difficulty of organising the innovation process in a linear way, service companies usually develop their innovation processes on certain trajectories and try to make the process more systematically, particularly in professional service firms (Sundbo and Gallouj, 2000).

Although the studies on how to develop services and how to manage service innovation process are comparatively rare, there are still some studies conceptualising the service innovation process (e.g. Aarikka-Stenroos and Jaakkola, 2012; Gadrey and Gallouj, 1998; Sundbo, 1997). For instance, Song et al. (2009) proposed a service innovation model, which includes ideal screening, business and market opportunity analysis, service design, service testing, and service launch. Yet, this model is only based on four in-depth case studies. Although the interviewed companies are service companies, they are not all KIBS firms. Aarikka-Stenroos and Jaakkola (2012) proposed a value co-creation process grounded in the investigation of some KIBS firms. Their value co-creation process includes five steps: customer needs identification, solution design and development, process and resource arrangements, value conflicts management and solution implementation. Additionally, in two decades ago, Sundbo (1997) divided the innovation process in service firms into four main phases: idea generation, transformation into an innovation project, development, and implementation. After his conceptualisation, Gadrey and Gallouj (1998), based on the research of the consultancy industry, proposed that the innovation process can be divided into four main steps,

including: identification of problems (the preliminary study stage), studying the problem (the stage of collecting information), advice to the problem (doing recommendations), and implementation. They also point out that, in some projects, there are some follow-up projects and an evaluation stage is required. Among the above-mentioned four innovation processes, the importance of idea emergence, idea development, and idea implementation are highlighted (Heusinkveld and Benders, 2002), yet they do not consider the importance of learning stage and also do not explore the detailed stages within the innovation process. In practice, the innovation process in service firms often has the iterative characteristic and is more likely to be regarded as a search-and-learning process (Sundbo, 1997).

### **3.2.3 The importance of learning process in KIBS**

As discussed in Chapter 2, KIBS firms feature in providing know-how-intensive and human capital-intensive services which are highly intangible and difficult to standardise, having intensive interactions with their clients, and serving as problem solver (Muller and Zenker, 2001; Strambach, 2001). Most innovations in KIBS, like consultancy and legal services, are *ad hoc* innovation (Sundbo and Gallouj, 2000). *Ad hoc* innovation is developed specific to a certain situation and is hard to be reproduced, yet the special and tacit techniques learnt, the knowledge acquired, and experiences accumulated from the innovation process can be reproduced in other projects (Gadrey and Gallouj, 1998). Consequently, how to learn from each project and apply the learning into other projects play a significant role in KIBS firms. To a certain degree, this implies that idea commercialisation may not be the final step of the innovation process in KIBS firms. Miles et al. (1995) also note that KIBS are characterised by learning to learn and learning-by-networking, indicating the importance of learning in KIBS firms. Another feature of KIBS businesses is that they cope with businesses in a wide range of industries, which implies that firms in these sectors have a wide spectrum of knowledge as they accumulate knowledge from these industries. Therefore, how KIBS firms acquire knowledge and learn from different customers play a crucial role in their innovation processes.

### 3.2.4 Knowledge bases

In accordance with the perspective of Asheim et al. (2005), in a firm, its innovation process is strongly and largely shaped by its specific knowledge. In the study of Asheim et al. (2005), they classify knowledge into three different knowledge bases: *'analytical'*, *'synthetic'* and *'symbolic'*. They point out that in different knowledge bases, the skills and qualifications required by companies, the mix of codified and tacit knowledge, codification limits and possibilities, innovation pressures and challenges, and the involved institutions should all be different. They define synthetic knowledge as *"knowledge to design something that work as a solution to a practical problem"*, analytical knowledge *"as knowledge to understand and explain features of the universe"*, and symbolic knowledge as *"knowledge to create cultural meaning through transmission in an affecting sensuous medium"*. Asheim et al. (2005) argue that the three types of knowledge bases refer to ideal-types. In practice, most industries compose of all three types of knowledge development activities; what distinguishes industries is the extent to which activity takes the dominant role (Asheim et al., 2005).

According to the view of Strambach et al. (2008), the knowledge bases of KIBS mainly contain synthetic and symbolic knowledge. Some industries may focus more on synthetic knowledge; some others are dependent more on symbolic knowledge. For example, creative industries are primarily based on the symbolic knowledge base (Asheim et al., 2005).

Indeed, in terms of domain knowledge possessed by different KIBS, Miles (2012) conceptualises it as three different categories, including technology/technical knowledge, creativity/cultural knowledge, and professional/administrative knowledge. Essentially, the conceptualisation of domain knowledge of Miles (2012) is consistent with the knowledge bases proposed by Asheim et al. (2005), except that the focus of Miles (2012) is in KIBS, while the conceptualisation of Asheim et al. (2005) is based on all industries.

#### 3.2.4.1 The knowledge base in the creative industries

In terms of the industries which draw on a symbolic knowledge base, their innovation occurs primarily by applying existing knowledge or by making new combinations of knowledge (Hansen et al., 2005). In addition, very occasionally, their innovation may

take place by setting aesthetical, technical or narrative standards. Hansen et al. (2005) argue that the innovations in the industries dominated by symbolic knowledge base are quite different from other industries due to the evaporative nature of the products in such industries. Here, the evaporative nature of innovation denotes that the products in these industries can only attract the attention of consumers for a limited time span although these products may exist in the physical form (Hansen et al., 2005). When comparing with the industries relying mainly on analytical and synthetic knowledge bases, industries depending principally on a symbolic knowledge base are likely to rely more on learning-by-doing in projects (Hansen et al., 2005). This also indicates the importance of exploring how advertising firms learn from projects.

Although the service innovation process in the literature delineates a general picture of how new services are innovated, it is too abstract to let us understand the detail of the process. Therefore, identifying the detail of innovation process will shed light on how to operationalise the innovation process more efficiently and effectively.

### **3.3 New service development stages**

#### **3.3.1 Existing new service development models**

The research of new service development has seen a growth since two decades ago (Miles, 2016), yet the research of new service development model remains scarce. New service can be regarded as the output of the new service development process (Flikkema et al., 2007). Flikkema et al. (2007) argue that in service firms, product innovation can be seen as the subset of new services. The new service development process refers to “*a set of activities, actions, tasks, and evaluations (project screening, market research, product development, test marketing) that move the project from the idea stage through to launch*” (Cooper et al., 1994). It is regarded as a systematic approach to develop new services (Singh et al., 2012). The typical stages of new service development process are the creation of concept, business analysis, idea development, and launch (Johnson et al., 2000; Froehle et al., 2000). Yu and Sangiorgi (2014) conclude that there are two key elements frequently discussed in new service development, which are the service concept and the service delivery system. Having a new service concept is the first step to develop new services; the delivery system is to implement and commercialise the new service concept. The service delivery system is generally related to three

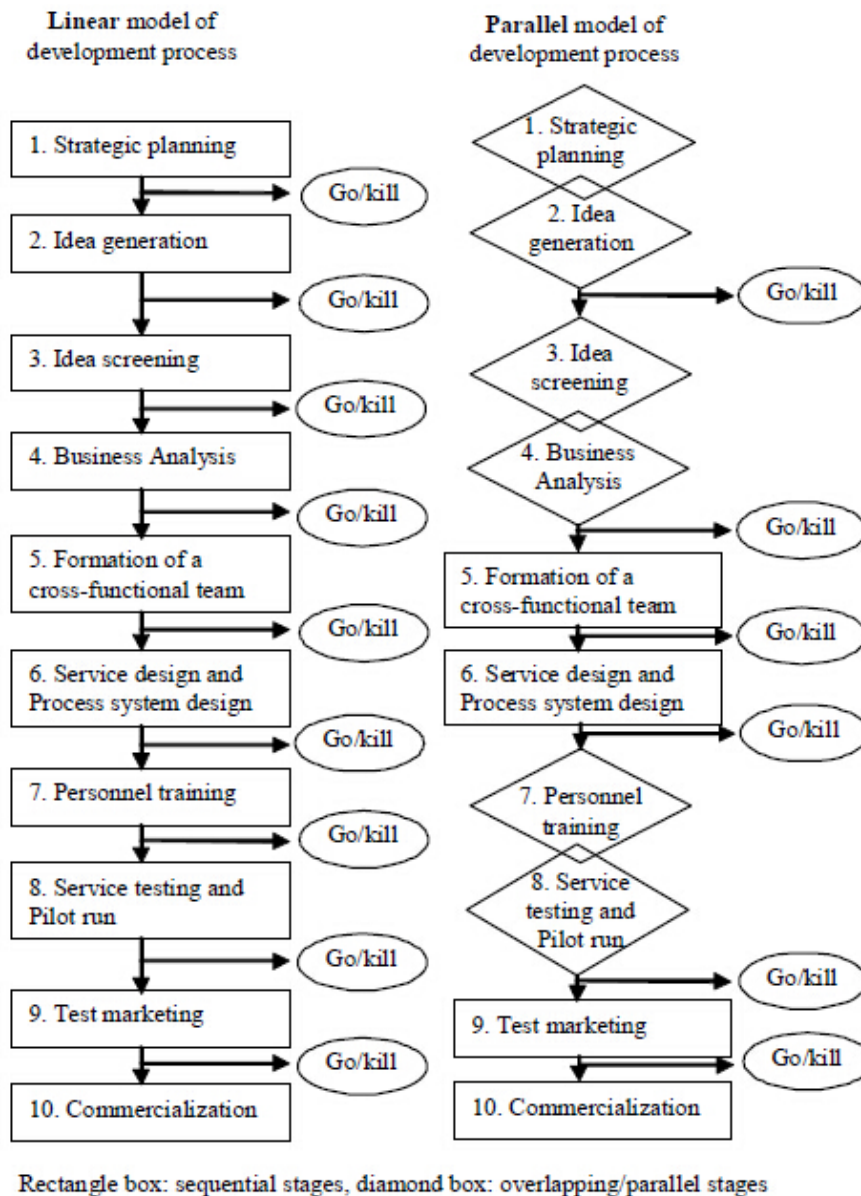
components, including the service development process, the people involved to deliver the service concept, and the involved (technical, environmental and physical) resources (Sangiorgi and Prendiville, 2014; Yu and Sangiorgi, 2014). The new service development process involves activities towards to improve the effectiveness and efficiency of developing new services and is often concerned with a stage-gate system (Cooper, 1990; de Brentani, 1991). The importance of having formal new service development process or a stage gate system has already substantiated in many studies (Cooper and Edgett, 1996; de Brentani, 1991; Edgett and Parkinson, 1994; Menor and Roth, 2007; Singh et al., 2012; Storey and Easingwood, 1996; Zomerdijk and Voss, 2011). Indeed, Hull and Tidd (2003) summarised a new product development framework, which includes five components: strategy, process, organisation, technology/tools, and system. They tested the framework in 108 service firms and found that the development strategy, processes, organisation and tools can also be applied in services, which indicates the importance of these components in new service development. Nevertheless, when comparing with manufacturing companies, there are fewer service companies leveraging formal Stage-Gate type system to develop new services (Griffin, 1997; Griffin and Belliveau, 1997). Therefore, more research of exploring the new service development process should be developed to shape our understanding of the relevant issues of the process (Droege et al., 2009; De Jong and Vermeulen, 2003; John and Storey, 1998).

Regarding the concrete new service development model, some researchers recognise its importance and divide the innovation process into detailed development stages (Alam and Perry, 2002; Bowers, 1989; Scheuing and Johnson, 1989). Bowers (1989) was the first scholar recognising the importance of breaking down the innovation process into stages. The model developed by Bowers (1989) for products includes eight steps: business strategy development, new product strategy development, idea generation, concept development and evaluation, business analysis, product development and testing, market testing, and commercialisation. This model highlights the importance of strategy in the process, which is neglected by many existing new service development processes. However, this model is quite similar to the model proposed by Booz Allen Hamilton (1982) for new product development. Therefore, in order to take the service uniqueness into consideration, Scheuing and Johnson (1989) proposed another new service development model based on financial services, including 15 stages:



formulating new service objectives, idea generation, idea selection, concept development, concept testing, business analysis, project authorisation, service design and testing, process and system design and testing, market program design and testing, personnel training, service testing and pilot study, marketing test, launching the service, and post launch evaluation. Then, grounded in these two models, Alam and Perry (2002) proposed a new service development process which takes customer-producer interactions into account. Their model mainly contains ten stages: strategic planning, idea generation, idea screening, business analysis, cross-functional team formation, service design and process system design, personnel training, service testing and pilot run, test marketing, and commercialisation. The importance of a well-designed strategy for new service development is also recognised by Alam and Perry (2002). This development stage has much similarity with the one developed by Bowers (1989), but the difference is that Alam and Perry (2002) propose two models based on the same development stages: one is a linear model; the other is a parallel model. In the parallel model, service providers are able to conduct several development tasks at the same time. The two models are shown as follows:

**Figure 3.1 The linear model and parallel model of service development stages**



Source: Alam and Perry (2002)

In new service development process, customers' involvement plays an important role in determining the success of new service development. Many scholars (Jaworski and Kohli, 1993; Slater and Narver, 1998) point out that the customer oriented new service development processes have greater opportunities for new services or products to achieve success. Sundbo and Gallouj (2000) claim that innovation process can be regarded as an interactive process with both internal and external parties. Among the interactions with external, most interactions are with customers. This signifies the importance of interaction with customers in the service innovation process (Edvardsson

et al., 1994). Therefore, identifying the input from customers in the process tends to be important in developing better services. In the model developed by Alam and Perry (2002), they illustrate the input of customers in each stage (Table 3.1):

**Table 3.1. The input from customers in new service development stages**

Stages	Input from customers
Stage 1: Strategic planning	What customers required to contribute to this stage is the feedback on financial data.
Stage 2: Idea generation	Customers should explain their needs, problems, and the gaps they identified in the market, their requirements for the new service, and the criteria used to evaluate the new service.
Stage 3: Idea selection	Customers need to state what their desired solutions attribute, benefits, and features are, judge the concepts developed by the service provider, and provide some suggestions about their market size and sales size.
Stage 4: Business analysis	Customers may need to provide some competitors' data and other resources to assist the service provider in checking the profitability of the developed ideas.
Stage 5: The formation of cross-functional team	Customers may need to make decisions together with the management team on the service providers' side to select appropriate team members.
Stage 6: Service design and process system design	Customers should jointly review and develop the solution blue prints, and check the service design.
Stage 7: Personnel training	Customers should take part in the pilot service delivery process, serve as a pilot customer, and identify the areas requiring improvements.
Stage 8: Service testing and pilot run:	Customers need to take part in a simulated service delivery process, and then make some suggestions on final improvements.
Stage 9: Test Marketing:	Customers can provide some suggestions on the marketing plan.
Stage 10: Commercialisation	Customers provide feedback about the overall performance of the service. If they feel satisfied with the service, they may recommend the service or the service provider to other customers.

Source: Alam and Perry (2002)

Therefore, the model developed by Adam and Perry (2002) depicts the inputs from customers in each development stage. Although it is based on financial service firms, it

can provide some implications of the customer input in developing new advertising services. Through the above literature review, there are mainly three new service development models (table 3.1). As show in the table, they are all based on financial service industries. In the classification of KIBS, it includes a wide range of industries which have both similarities and differences. Surprisingly, other service sectors have not received much attention, such as the creative industries which are famous for their originality and creativity. In terms of differences in KIBS, one is concerned with the characteristic of their clients and their service end-users, which means in some industries, their clients (customers) are also their service end-users, while in some others, their clients (customers) are different from their service end-users. Although these models cannot be used in the advertising industry directly, they let researchers have a general understanding of new service development model and contribute to generating a more comprehensive new service development model.

**Table 3.2 The existing new service development models**

Authors	Bowers (1989)	Scheuing and Johnson (1989)	Alam and Perry (2002)
Stages	Business strategy development, New product strategy development, Idea generation, Concept development and evaluation, Business analysis, Product development and testing, Market testing, Commercialisation	Formulating new service objectives, Idea generation, Idea selection, The development of concept, Concept testing, Business analysis, Project authorization, Service design and testing, Process and system design and testing, Market program design and testing, Personnel training, Service testing and pilot study, Marketing test, Launching the service, Post launch evaluation.	Idea generation, Idea selection, Business analysis, Cross-functional team formation, Service design and process system design, Personnel training Service testing and pilot run, Test marketing, Commercialisation
Research objects	Financial service industries	Financial service firms	Australian financial service firms

Source: Author

### 3.4 Co-creation and customer involvement

#### 3.4.1 The importance of customer involvement

With the advanced technology development, there are many changes occurring in how to deliver and how to experience services (Ostrom et al., 2015). Today, customers are playing an increasingly important role in co-developing services (Larivière et al., 2017; McColl-Kennedy et al., 2012) and numerous researchers are realising the importance of customer involvement in developing services (Sundbo and Toivonen, 2011; Urban and von Hippel, 1988). Many studies argue that having a customer-oriented process is likely

to produce superior service innovation (Alam and Perry, 2002; Magnusson et al., 2003; Slater and Narver, 1994b). In product industries, customers usually just have a singular role, while in business-to-business services, clients have a dual role: customer and co-producer (Martin et al., 1999; Normann, 1991).

New service development is increasingly concerned with the outcome of inter-firm collaboration (Perks et al., 2012), particularly in KIBS firms where interactions between professional service providers and clients are a source of and a locus of innovation (Gadrey and Gallouj, 1998). In the innovation process of KIBS firms, the client's problem acts as the driven force of new service development (Sundbo and Gallouj, 2000), which signifies that customer is a necessary component in developing services (Dadfar et al., 2013). The innovation in KIBS can be thought of as a process deriving from the interplay and interaction between different actors (Doloreux, 2004). The engagement with customer in the innovation process is important in the development, design and delivery of innovative products and services (Agarwal and Selen, 2009). Morris et al. (2015) also point out that in professional service firms, clients are frequently involved in the innovation process for co-producing the solution; they assist professionals in defining the problem, gathering necessary information and reviewing potential choices before the final solution is delivered.

Thompke and Von Hippel (2002) have identified that creating successful innovation requires two types of information, including the "need" information about customers and the "solution" information about how to satisfy customer needs. The former information resides with customers, while the latter depends on the service or product providers. Consequently, the information asymmetry exists between service providers and customers (von Hippel, 2005b). Some scholars have identified that the approach to bridging this asymmetry is by providing opportunities for customers to let them play an proactive role in the new service or product development process (Thomke and von Hippel, 2002; von Hippel, 2005b). According to the perspective of de Jong and den Hertog (2010), the current phase of service innovation 3.0 is featured by the co-creation and co-design between firms and between customers and firms. The ideas generated by involving users as co-creators in the innovation process are more easily implemented, more creative, and more highly valued by users (Kristensson et al., 2004). Therefore, the studies concerning how service suppliers and their client/customers co-create value

play a paramount role in understanding service innovation (Huarng and Ribeiro-Soriano, 2013). Nowadays, treating customers as co-innovators or co-creators of new services is increasingly adopted in service research (Edvardsson et al., 2010).

However, there is very little empirical research concerned with how to use co-creation to facilitate service innovation and how customers engage in co-creation, particularly in the roles played and activities performed by customers and service suppliers or the abilities needed (Barrett and Hinings, 2015; Moeller et al., 2013; Payne et al., 2008).

### **3.4.2 The nature of co-creation**

While "co-creation" has been in use for decades, scholarly attention to the topic seems to have been triggered by the article written by Prahalad and Ramaswamy (2004a). In their definition, co-creation is defined as "*joint creation of value by the company and the customer*", with the emphasis on the interaction between the company and the customer. In a sense, interaction can be regarded as reciprocal collaboration and is comprised of the activities of meetings, memos, teleconferencing, standard documentation exchange, and conference calls (Kahn and McDonough, 1997). Research on co-creation has seen a significant growth in the last decade (alongside other ideas such as user innovation and user-driven innovation), yet it is still a very broad term and has a wide range of applications (Sanders and Simons, 2009; Ranjan and Read, 2016). Some scholars have conceptualised co-creation definitions (Appendix 3), but a sound theoretical foundation is still lacking, and much writing treats co-creation as effectively the same as co-production (Payne et al., 2008; Voorberg et al., 2015). Therefore, the existing understanding of co-creation conceptual boundaries is rather equivocal (Ranjan and Read, 2016), more research is required to reduce its theoretical ambiguity.

The important role of customers as contributing to products has been recognised for several decades (Lovelock and Young, 1979; von Hippel, 1978; von Hippel, 1986; von Hippel, 1988; von Hippel, 2005b). Co-production is been recognised as a necessary and central construct in the service literature (Chathoth et al., 2013; Wilson et al., 2012). It refers to the involvement of customers or other parties in producing services or goods and is usually used to reflect active customer involvement (Auh et al., 2007; Brandsen and Pestoff, 2006; Chathoth et al., 2013). In a sense, co-production is about how customers or consumers work with their service suppliers during the service exchange

mechanism to co-develop better service experience or to customise the service (Bendapudi and Leone, 2003); this highlights the simultaneous consumption and production characteristic of many services (Chathoth et al., 2013). In this perspective, co-production can be regarded as customer participation in co-producing services and goods (Bendapudi and Leone, 2003).

Based on the literature on co-creation, Chathoth et al. (2013) conclude that the differences between co-production and co-creation can be divided into six areas: value creation, customer's role, customer's participation (customer's expectation and key actors), focus on production and company or customer and their experience, who lead the innovation development, and communication format (listening to customers or having dialogues with customers). In their perspective, the main difference between co-production and co-creation depends on whether value creation derives from the production process or consumption process. However, in this thesis, this is not the key difference to differentiate co-production and co-creation. As discussed by Chathoth et al. (2013), co-production is more related to the production process, while co-creation is more dependent on the usage/consumption process. However, in the business-to-business services where customer are not the end users, the co-production and co-creation matrix proposed by Chathoth et al. (2013) is unsuitable to be utilised. Apart from this, it is difficult to differentiate production process and consumption process in services. For instance, the business customers of advertising firms are not the end user of the advertisement, but they can also be regarded as the pre-released consumers of the advertisement. In the production process, also, advertising agencies are actively engaging with the targeted audiences to explore their views toward the new advertisement. Therefore, using whether the value is created in the production process or in the consumption process is not very generalisable, especially unsuitable to be used to classify the co-creation activities occurring in the services where customers and end users are different.

Some scholars claim that the nature of co-creation overlaps customisation to some degree. For example, Kristensson et al. (2008) contend that the degree of customer involvement is the primary element distinguishing co-creation and customisation. The role customers played in co-creation is more active than in customisation. In customisation, the involvement of customer tends to occur at the end of the innovation



phase and their role is restricted to provide suggestions for incremental changes to the almost complete prototype of service or product (Kristensson et al., 2008). Under such a situation, the customer plays a reactive role of giving response to the questions posed by the service supplier or manufacturer (Kristensson et al., 2008). However, what co-creation accentuates is the active involvement or collaboration from customers from the beginning of the innovation process.

Verma et al. (2012) treat customer co-creation as a communication process. According to their perspective, when companies are trying to solve creative problems, frequent, bidirectional, and face-to-face customer co-creation is needed. However, the author of this thesis argues that customer co-creation is far more than a communication process. It is the expertise integration and active collaboration between service suppliers and (business) customers to create something new together.

### **3.4.3 The definition of co-creation**

As discussed above, the ideas of co-production and co-creation both emphasise customers' active involvement in producing products or services, but some researchers treat them as differing in important ways. Co-production involves the activity of the customer (in this thesis, we focus on the business customer, rather than the final audience for the advertisement) in producing a service which has already been largely designed by the supplier. Such customer involvement may result in some degree of customisation, in more superficial "personalisation", or in assembly of the service from a menu of options. Co-creation, however, additionally involves the customer in more upstream activities, such as creation, design, and elaboration of the service concept, together in some cases with more engagement in service production and other activities. A focus on co-creation brings to the fore the feature of joint problem definition and problem solving with customers (Prahalad and Ramaswamy, 2004b). Service innovations can emerge from the interactions and behaviours between the involved members (Perks et al., 2012). Substantial novelty may result from co-creation (something new or different is co-created), while co-production does not necessarily generate something that is substantially new or different.

This thesis is based on KIBS (specifically advertising services) and focuses on the role of customers (business clients) rather than other partners, such as the media agency,

research organisations. Co-creation is concerned with the interaction between service suppliers and customers in the innovation process; their interaction contributes to the development of new services. Such interaction does not occur at a fixed or single point. It is dynamic, may extend throughout the process, with a different degree of intensity in different stages of the process of service design and delivery. Therefore, co-creation involves various degrees of active involvement of customers in the upstream activities in the innovation process, such as creation/ideation, design, elaboration, production, and the like, to create something new together. Therefore, one of the purposes of this thesis is to identify and label these upstream sub-activities that constitute co-creation.

#### **3.4.4 The importance of co-creation**

With the advanced development of communication technology, customers are transforming their role playing in the service or product development process from passive end - validator to active end - co-creator who is increasingly informed, connected and empowered (Durugbo and Pawar, 2014; Prahalad and Ramaswamy, 2004a; Zwick et al., 2008). The locus of value creation and value extraction is no longer limited within companies, but is increasingly taking the interaction between firms and consumers into account (Prahalad and Ramaswamy, 2004a). Prahalad and Ramaswamy (2004a) argue that the product- and firm-centric view of value creation is shifting towards personalised consumer experiences. In terms of the next practice in value creation, the centre is the conversation, access, transparency, and understanding of risk-benefits between consumers and companies (Prahalad and Ramaswamy, 2004a).

Through co-creation, the involved firms or actors can gain more innovation opportunities as the involved actors can access new resources provided by their co-creation partners (Ranjan and Read, 2016). Therefore, co-creation can be regarded as a resource integration process (Ranjan and Read, 2016) and both service suppliers and customers can benefit from the process. In terms of the benefits to clients/business customers, co-creation can be beneficial for them to find out more business growth opportunities and improve their revenue-generating capacity, to save cost, and to have a better understanding of their suppliers to increase mutual trust (Edvardsson et al., 2011). Regarding the benefits to suppliers, customer involvement can assist them in producing superior services, reducing service/product development cycle times, and educating their customers (Alam, 2002). Additionally, involving in the innovation process can

help customers increase their satisfaction and value (Moeller et al., 2013). Apart from these benefits, co-creation also produces great influence on the ideas generated in the innovation process, on creativity, and on the knowledge exchanged during the process

With the help of clients in the idea generation process, firms have more opportunities to develop more original ideas. Comparing with the innovative ideas developed by professional service developers, the service ideas conceptualised by consumers are more innovative in the aspects of originality and user value (Matthing et al., 2004). In addition, involving customers early and intensively can enhance firms' learning and help firms mitigate the risk of being imitated and transcended by competitors (Matthing et al., 2004).

There are two different types of schools of the effects of close interaction between advertising companies and their clients on creativity. Some advertising professionals point out that because of the thinking style difference, communicating too much with clients tends to kill their ideas and confine their employees' creativity (Aarikka-Stenroos and Jaakkola, 2012). However, some other scholars' research (Poetz and Schreier, 2012) indicates that having close interaction with customers tends to help companies generate more original ideas and be conducive to improve employee creativity.

#### ***3.4.4.1 The effects of co-creation/client involvement on knowledge exchanges***

As collaboration between organisations plays an important role in knowledge acquisition (Grant, 1996; Grant and Baden-Fuller, 1995; Matusik and Hill, 1998), it is reasonable to predict that co-creation is able to facilitate the knowledge exchange degree or the amount of knowledge acquired from customers (Alam, 2002). Through involving customers actively in the process, service suppliers can be able to increase client satisfaction, keep a good relationship with clients, acquire more knowledge from clients to cement their knowledge base, and apply more knowledge acquired from clients into other projects (Hu et al., 2013). For example, Yli-Renko et al. (2001) demonstrate that the social interaction and network ties between a key customer and a young technology-based firm have a positive influence on the firm's knowledge acquisition. In addition, Løwendahl et al. (2001) claim that knowledge development in consulting firms is driven by client engagements. Knowledge derives from the

interaction that professionals with clients and the projects that they are involved in (Løwendahl et al., 2001). Therefore, through co-creation with clients, service suppliers tend to acquire more knowledge from their clients.

In advertising firms, their customers often come from a wide range of industries, thus they can acquire knowledge from them. The knowledge they acquired can help them enlarge and cement their knowledge bases, which in turn assists them in exploring new business opportunities and providing better services. Therefore, the above discussion shows that KIBS firms are likely to increase their competitiveness through co-creating with customers. Since the experience from the co-creation process also influences the service performance perceived by clients (Aarikka-Stenroos and Jaakkola, 2012), having a systematic approach to managing the co-creation process tends to help service providers improve their service performance.

However, customer involvement in the innovation process might engender some risks for service providers (Dadfar et al., 2013). For instance, some studies note that customer involvement may increase the uncertainty involved in developing services (Jo Bitner et al., 1997; Wilson et al., 2012) and slow down the new service development process (Larivière et al., 2017). Some service providers lack the ability of educating their customers for effective involvement in the innovation process. Bettencourt et al. (2002) also emphasised the importance of co-production ability and role clarity in involving customers effectively in the process. Therefore, not all service providers are suitable to implement co-creation strategy.

### **3.4.5 Co-production/co-creation antecedents**

Although co-production is different from co-creation, they have many similarities. Thus, the research of co-production process and antecedents can provide some implications to implement co-creation and identify co-creation antecedents. Etgar (2008) proposed a five distinct stages' dynamic co-production process, including development of antecedent conditions, development of motivation which pushes consumers to be involved in co-production, calculation of the cost-benefits in co-production, activation when consumers become involved in the actual co-production activities, and generation of outputs and evaluation of the results of the co-production process. Etgar (2008) argues that there are four types of antecedents: macro-environmental conditions,

consumer linked conditions, product linked conditions, and situationally linked conditions. This means when companies plan to use co-creation strategy in a certain project, they need to check whether that project meets these conditions. Because the primary motivation of customer involvement in the co-production process is to produce customised products, co-production is more likely to occur in the product categories which have large and significant product attributes differences among different brands or items (Etgar, 2008). Therefore, the importance of such differences to consumers and the existence of powerful brands all show a significant role in influencing consumer's willingness to co-produce the product (Etgar, 2008).

Additionally, Chen et al. (2014) used a survey approach to investigate the influence made by co-production practices with customers on service innovation in Taiwanese firms. The results identify that the key drivers in co-production practice are market orientation and customer match. Chen et al. (2011) find that to some extent, co-production has a positive relationship with service innovation and the relationship between them is positively dependent on the compatibility of collaborative partners, history of business relations, affective commitment, and expertise. Accordingly, they propose that the antecedents of co-production are partner match, partner expertise, and effective commitment. Chen et al. (2011) comment that a good partner can enhance the sharing and participation willingness between partners in the service innovation process. They state that among the three antecedents, affective commitment has the greatest impact on the effects of co-production on service innovation, thus, the activities which confirm each partner's affective commitment should be treated as the most important and be apparent. Jouny-Rivier et al. (2017) demonstrate that the factors influencing the commitment of co-creating new services with business customers are customer benefits, what the firm needs to sacrifice, and some other firm-related elements, such as partners' innovativeness and involvement. Additionally, Chathoth et al. (2013) note that the prerequisite of implementing co-creation in firms is to create transparency in delivering products or services, such as listing the technology, labour and material required, to enable customers to co-create in the process. Therefore, whether a firm needs to co-create with their customers to develop new service/product or not is determined by a wide range of elements. Not all firms or all projects are suitable to co-create new services or products with their customers. To help firms identify co-creation opportunities, Ranjan and Read (2016) developed a co-creation framework including six

dimensions: co-creation motive, co-creation form, engaging actor, the platform used to engage, engagement level, and engagement duration.

### **3.4.6 Co-creation process**

Co-creation enables customers to co-construct the service experience with their service/product suppliers to suit their contexts and emphasises the feature of joint problem definition and problem solving with customers (Prahalad and Ramaswamy, 2004a). Recently, the importance of co-creation is being acknowledged by an increasing number of researchers and practitioners. Nevertheless, co-creation is still an underdeveloped research area (Zhang and Chen, 2008), especially in how to formalise the co-creation process and assess methodologies that use techniques to involve customers in co-creation (Durugbo and Pawar, 2014). In some sense, the co-creation process can be regarded as a learning strategy with which companies are able to stay abreast with the increasing market demands (Payne et al., 2008).

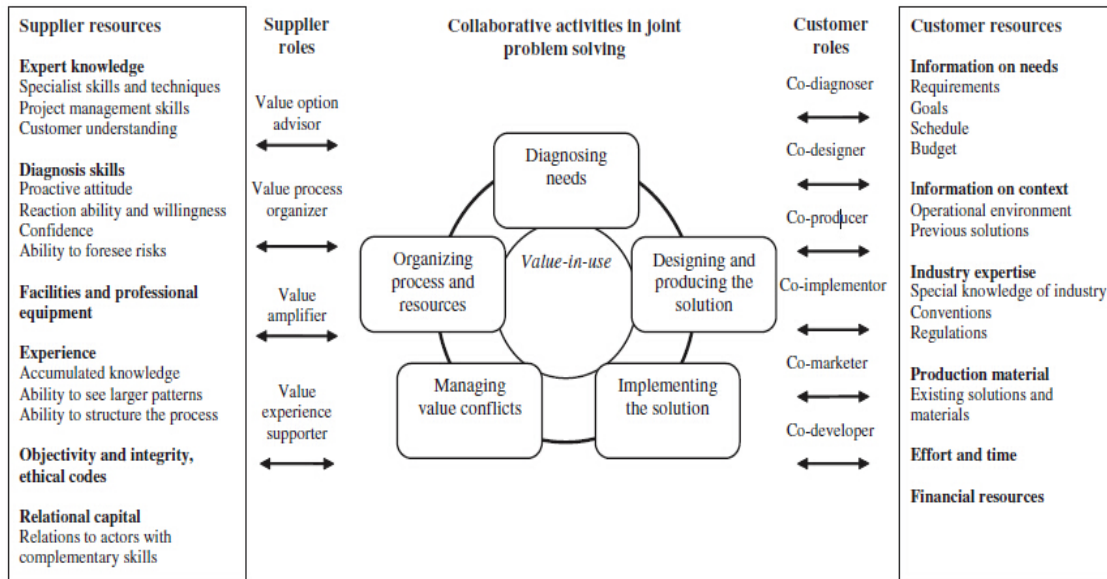
Kohtamäki and Rajala (2016) point out that using the process view to study co-creation is likely to identify some managerially related theorising in co-creation, yet most of the previous literature concerned with co-creation has concentrated on the outcome (Kristensson et al., 2008). Payne et al. (2008) proposed a process-based framework with the recognition of the central role of process in co-creation. Though most of recent studies indicate that co-creation creates opportunities for service suppliers and customers to create value with each other (Payne et al., 2008; Svensson and Grönroos, 2008), these studies do not articulate the interaction process comprehensively, such as the activities performed, roles played and the co-creation intensity. According to the perspective of de Jong and Vermeulen (2003), knowing how to manage activities of the new service development process improves the effectiveness of implementing new services. Therefore, this thesis adopts the processual view to study co-creation and focuses on the co-creation process to explore the roles played and activities performed by clients and service providers.

Although the service innovation process in KIBS is recognised as an interactive process where customers play a critical role, research on the mutual innovation process is relatively rare (Aarikka-Stenroos and Jaakkola, 2012). Also, there is little research about how customers engage in co-creation (Payne et al., 2008). In KIBS' innovation process,

service suppliers need to create effective interactions or dialogues with their clients to identify client needs, basic service requirements and purposes, yet creating such effective interactions or dialogues is challenging to KIBS firms (Aarikka-Stenroos and Jaakkola, 2012). Sometimes, clients have a clear idea of their own problems and needs, but in some other times, they may have difficulty in identifying their problems and needs (Nordin and Kowalkowski, 2010; Tuli et al., 2007) as they lack the skills and knowledge to understand their needs (Lapierre, 1997; Miles, 2012; Mitchell, 1994). Consequently, an effective interaction between service providers and their customers can be beneficial to specifying clients' needs and diagnosing their problems (Tuli et al., 2007).

Based upon the investigation of some KIBS firms, Aarikka-Stenroos and Jaakkola (2012) proposed a value co-creation process, which are constituted by the steps of diagnosing needs, designing and producing the solution, implementing the solution, managing value conflicts, and organising process and resources. When comparing with other new service development models identified in Chapter 2, their model is simpler and makes progress in identifying the roles of customers and service suppliers in each stage and concluding what knowledge and resources are required from service suppliers and customers, yet it does not show the complexity of the co-creation process and cannot provide a full picture for us of how customers engage in the co-creation process. The detail of the model is as follows:

**Figure 3.2 Joint problem solving as value co-creation in knowledge intensive services**



Source: Aarikka-Stenroos and Jaakkola (2012)

#### 3.4.6.1 Customer co-creation in certain stages

Although customers are an integral part of the service innovation process, do they need to get involved in every development stage? Based on the research of the relationship between customer interaction and product success in the German machine industry product development process, Gruner and Homburg (2000) found that in some development stages - idea generation, concept development, prototype testing, and market launch, customer interaction is closely associated with new product development success, while in other stages-project definition and engineering, they did not find the close relationship between customer interaction and product development success. This is partly because the machine industry is a manufacturing industry and is based on technical knowledge which is difficult for customers to be involved in the problem definition phase. However, the production of services is distinct from the production of products as the co-production of customers is usually a necessary element in delivering services. Although some differences exist between the production of services and products, the research of Gruner and Homburg (2000) at least implies that customer interaction is only useful in certain activities. Therefore, identifying the co-creation

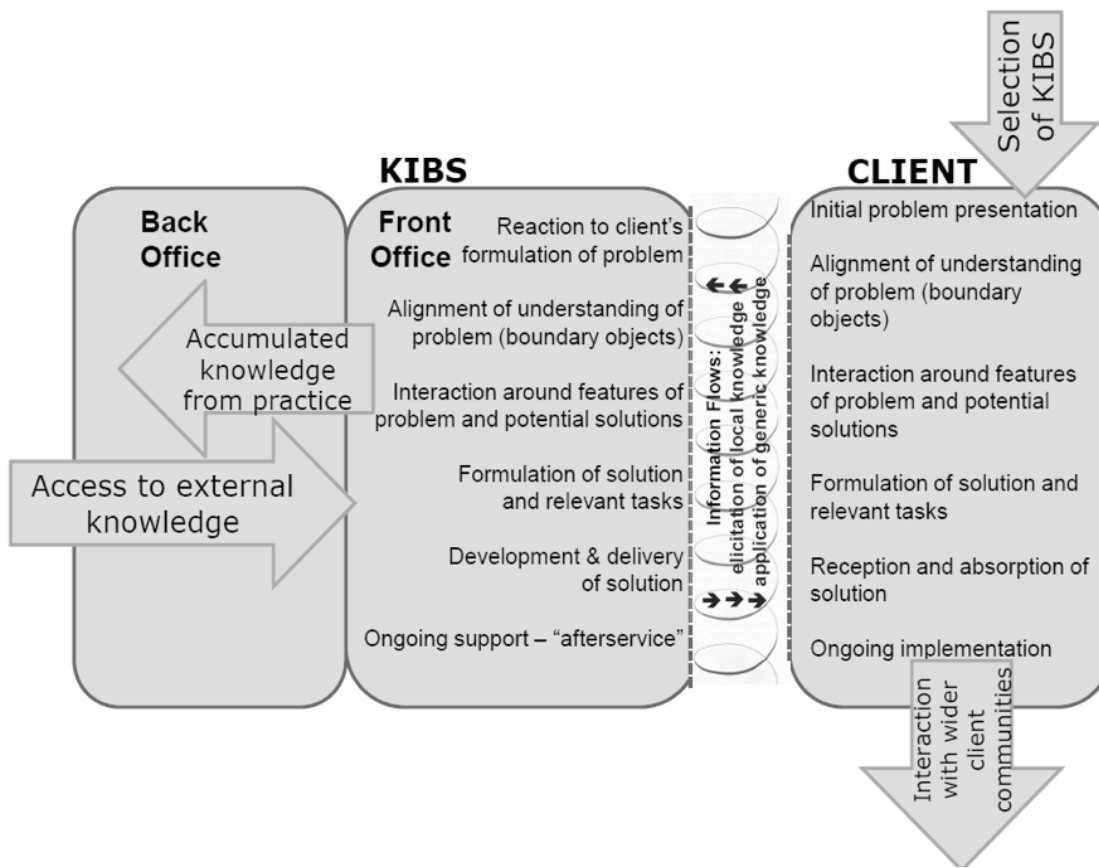


stages (or the “touchpoints”) between service suppliers and customers could be beneficial for them to develop better services together.

#### ***3.4.6.2 The touchpoints between service providers and customers***

As mentioned above, in KIBS innovation processes, the starting point and the driven force of innovation is the client problem (Sundbo and Gallouj, 2000) and innovation can be viewed as a process deriving from the interplay and interaction among the involved actors (Doloreux, 2004). According to the view of Miles (2012), there are some “touchpoints” existing between KIBS firms and their clients. The “touchpoints” refer to where the interactions between KIBS firms and their customers happen. In his model, the “touchpoints” mainly occur in six areas: conducting initial problem presentations, sharing understanding of problems, discussing features of problem and potential solutions, developing solutions and relevant tasks, diffusing the solution, and ongoing implementation. In fact, this model (Figure 3.2) illustrates when the KIBS firm and their client need to interact and what should they do at each touchpoint. From the model, we can have a general understanding of the main interaction activities occurring between KIBS firms and clients. The model also implies that the nature of the activities and the people involved in these touchpoints are different. In terms of how service suppliers and customers interact with each other, service blueprinting is introduced as a process control technique to help service suppliers identify when and where interaction occurs (Bitner et al., 2008). It is utilised to distinguish onstage and backstage activities and can be helpful to explain customer role in the service process, yet it is more dependent on routine based services to improve service efficiency and effectiveness rather than focusing on developing new services.

**Figure 3.3 The "Touchpoints" between KIBS firms and clients**



Source: Miles (2012)

### 3.4.7 The interaction relationships between KIBS and their clients

In service innovation process, the interaction between KIBS firms and their clients can be treated as a source of and a locus of innovation (Gadrey and Gallouj, 1998). Identifying how they interact with each other throughout the innovation process can help service providers manage the innovation process. KIBS include a wide range of industries which have both similarities and differences. Due to the distinctiveness among these services, the interaction pattern that these services with their clients is likely to be different. Thus, Tordoir (1995) grouped the relationships between different professional services and their clients into three categories, including: *'sparring'*, *'jobbing'* and *'sales'*. In sparring relations, service providers usually need to combine their professional knowledge with the client perception, information and knowledge to reach a bespoke assessment to the nature of the client problem. Some types of KIBS firms (e.g. consultancy) usually have sparring relations with their clients. In jobbing

relations, clients are likely to diagnose their problem by themselves, tell service providers their solution preference, and then require service providers to execute certain tasks. In the 'sales' relationship, service providers tend to have little interaction with their clients.

As discussed in Chapter 2, most innovations in KIBS are *ad hoc* innovation. Gadrey and Gallouj (1998) point out that the creation and success of *ad hoc* innovation depend on sparring type interfaces between service suppliers and clients as this type of interface can facilitate the both sides' understanding and acceptance for the innovation developed. Since *ad hoc* innovation can be treated as a product of the customer interface (Sundbo and Gallouj, 2000), the effectiveness of *ad hoc* innovation depends on the quality of the professionals both in client organisations and in KIBS firms and on the interaction between them (Gadrey and Gallouj, 1998). Thus, having in-depth interaction between KIBS firms and clients is one potential approach to facilitating both parties' involvement in the knowledge exchange and learning process (den Hertog, 2000; Muller and Zenker, 2001), and then beneficial to the *ad hoc* innovation development.

In KIBS, what clients regard as important lies in the effectiveness of the interface work instead of the productivity (Gadrey and Gallouj, 1998). Hence, the issues related to client involvement management play a crucial role in the innovation process. Bettencourt et al. (2002) point out that the key dimensions affecting the co-production effectiveness between KIBS providers and clients are ability to co-produce, the role clarity between them, and the motivation to co-produce. This signifies the importance of defining the nature of client roles in the innovation process. The importance of client motivation to co-produce is in line with the argument of Egtar (2008). Meanwhile, clients must possess the required knowledge and abilities to undertake their responsibilities. They also developed three strategies to help companies create high performance clients: developing client selectivity criteria, creating client training, education, and socialisation opportunities, and developing project leadership and client performance evaluation mechanisms. Indeed, to some degree, the argument of Bettencourt et al. (2002) highlights the importance of having a formal procedure or process in client involvement or co-creation.

Although customer involvement is important in developing service innovation, some service firms have difficulties in involving clients in the innovation process efficiently

(Sundbo, 1997). This may be because of the different thinking styles between the service provider and the customer or because customers can be treated as the potential competitors to some KIBS firms (Bitner et al., 1997). In a sense, this indicates the importance of exploring the co-creation process in detail.

#### **3.4.8 The role played by customers**

Before 2000, customers were usually treated as passive audiences, after that, customers are beginning to be regarded as value co-creators (Prahalad and Ramaswamy, 2000). With the trend of digitalisation, the role of customers is changing. They are collaborators, competitors, co-developers, and a new source of competence for companies (Prahalad and Ramaswamy, 2000). In developing new services, customers can contribute their knowledge, skills and experiences to the development process. Customers can act as the innovator, differentiator, coordinator, and enabler in developing innovations (Larivière et al., 2017). Also, Bitner et al. (1997) identify three different roles which can be played by clients in the co-production process, including the provider of productive resources (the “partial” employees), the service quality, satisfaction and value contributor, and the competitor. Masiello et al. (2014) also proposed that clients may act as catalyst, pilot, co-developer, and source of competence in different innovation processes, yet they did not explore these roles in detail in their surveys. Indeed, the roles proposed by these scholars (Bitner et al., 1997; Masiello et al., 2014; Larivière et al., 2017; Prahalad and Ramaswamy, 2000) remain in the stage of providing a preliminary understanding of client role in the innovation process, but did not explore client roles in different stages in the innovation process, which means that we cannot know how clients play the roles in the innovation process.

In terms of the role of clients in the innovation process’ different stages, the research is rather limited. Hislop (2002) argues that although there are some researchers studying the client diversity and dynamics in the management consultancy literature, the role of client plays in their relationships has been largely neglected. Based on the practice-based view, Gummesson et al. (2012) frame innovation as a co-creation process and propose the five “Co-s” model: co-ideation, co-valuation, co-design, co-test and co-launch. In the light of the view of Gummesson et al. (2012), the five “Co-s” are embedded in different phases of the innovation process in which individuals interact and collaborate and integrate the necessary resources. However, the five “Co-s” model

proposed by Gummesson et al. (2012) neglects the importance of diagnosing the right problem in the innovation process and does not distinguish the product innovation process and service innovation process. In line with the view of Gummesson et al. (2012), Sheth and Uslay (2007) point out that the concept of value co-creation can be extended to a set of co-creation activities, which are co-conception, co-design, co-production, co-promotion, co-pricing, co-distribution, co-consumption, co-maintenance, co-disposal and co-outsourcing. These papers indicate that co-creators may play different roles in different phases.

In the new service development model developed by Adam and Perry (2002), customers can act as information providers, co-creators and prototype examiners at different stages. Although they point out that customers play different roles in different stages, they do not clearly explain these roles, when customers undertake different roles, and how customers and service suppliers interact with each other. In the value co-creation model proposed by Aarikka-Stenroos and Jaakkola (2012), they identify five different roles played by clients: co-diagnoser, co-designer, co-producer, co-implementor, co-marketer, and co-developer. Yet, they organise the process into five main steps rather than developing the co-creation process into detailed stages to show the complexity of the interaction process and how clients engage in the process.

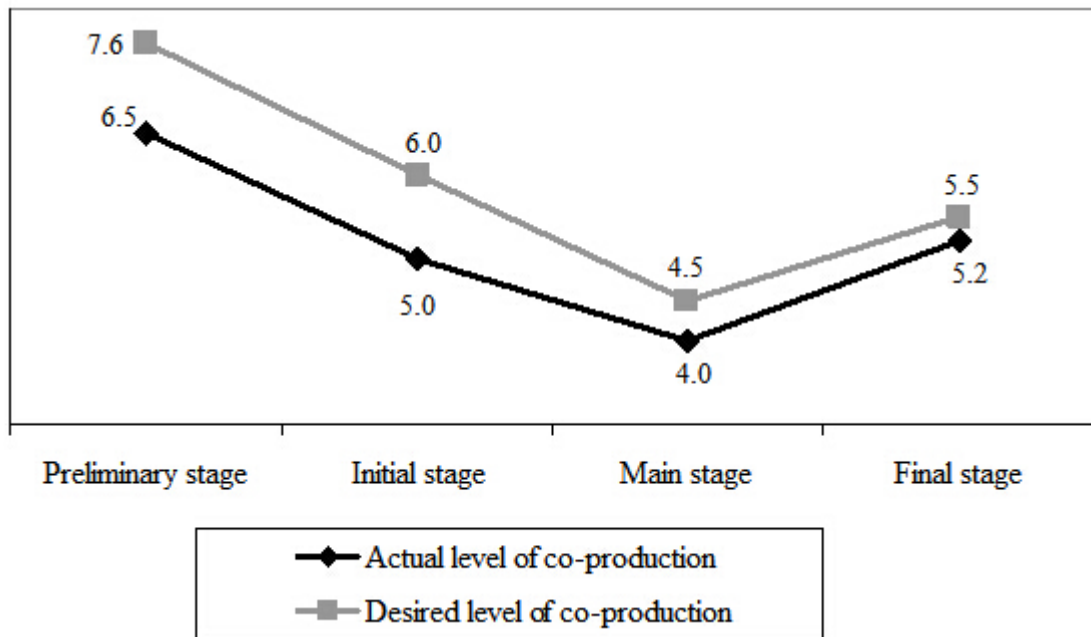
Thus, based on the above literature, the role of clients' playing in different stages and in different types of service innovations tends to be different. As the research studying the role of clients is very rare, this research will explore the role of clients at different stages in the innovation process.

### **3.4.9 The frequency/intensity of interaction in different stages**

The importance of customer involvement has obtained a general unanimity among researchers, yet the perspectives of customer involvement intensity in different innovation phases vary from person to person. Möller and Törrönen (2003) claim that the frequency of interdependence and interaction between service suppliers and customers is positively associated with the extent of information asymmetry between them. In the service innovation process developed by Gadrey and Gallouj (1998), clients and service providers have a high level of interaction in the first stage, a low or moderate level of interaction in the second stage, a moderate level of interaction in the

third stage, and a low level of interaction in jobbing relations or a high level of interaction in sparring relations in the fourth stage. The high level of interaction in the first stage signifies the importance of having the same informational and cognitive input from service providers and clients (Gadrey and Gallouj, 1998) in developing *ad hoc* innovation and the importance of the information collected in the preliminary stage. Different from the findings of Gadrey and Gallouj (1998), Sundbo (1997) claims that service providers have the most intensive interaction with their customers in the idea generation stage and the prototype testing stage as customers are one of the core sources of developing new ideas and their involvement can provide employees some inspiration. Alam (2002) identifies that customer involvement intensity in the service innovation development process can be regarded as on a continuum. He describes that there are four different levels' interaction involving: from passive acquisition of customer input, through gathering specific information and feedback on related issues, then to consult extensively with customers, and finally to invite customers to participate in the new service development team to do customer presentation. Among these four levels, customer involvement intensity is gradually growing, from the lowest to the highest. Doroshenko (2012) also studies co-production level between service providers and clients in the service co-production process based on the KIBS firms in Russia (Figure 3.4). She identifies that the stage having the highest level of co-production with customers is in the preliminary stage in which clients and service providers have much negotiation and sign the contract, the second highest level of co-production is in the service preparation stage, the third highest level of co-production in the final stage (solution presentation stage), and the lowest level of co-production is in the main service production stage.

**Figure 3.4 Actual and desired level of KIBS co-production**



Source: Doroshenko (2012)

Additionally, Lehrer et al. (2012) propose that the co-production intensity in KIBS firms follows a ‘U-shaped’ curve pattern along the primary stages of the project development by interviewing three design-oriented KIBS firms. In their research, their interviewees seldom mentioned the importance of client in the creative phase of the project. In the stage of generating the creative solution, the co-production extent between KIBS and the client is at the lowest point, which is different from other literature. They suggest that in certain stages, less co-production from client might improve the final output quality. Yet, their research is only based on three design firms, so further research tends to be required to examine the generalisability of their findings. Also, they divide the project development into three stages which is too simple to reveal the complexity of solution development.

Some researchers state that by involving users earlier in the innovation process, there is a greater chance for firms to achieve success (Sundbo and Toivonen, 2011). Matthing et al. (2004) also claim that customers should be involved in the new service development process early and intensively as this can assist service providers in reducing the risk of being imitated and transcended by their competitors. Some scholars claim that users can be treated as active players across the whole service life cycle (Kaasinen et al., 2010).

#### **3.4.10 The communication between KIBS firms and their clients**

As mentioned in section 1.4, this thesis will explore the interaction approaches used by service providers to involve the client in the innovation process. Communication is concerned with the information and knowledge exchange (PMI, 2000). By reviewing the related literature of communication, there are a lot of contents and media available to bridge the communication between project managers and clients (Turner and Müller, 2004). The communication media can be written reports, verbal conversation or face-to-face meetings. The communication content can be the report of project status, project changes, unexpected issues, the things related to next steps, analysis of the project, measures of the projects, etc.

In a sense, communication approaches can be divided in formal communication and informal communication. Formal communication is about regimented, deliberate and impersonal interaction, while informal communication is about casual, spontaneous and interpersonally familiar interaction (Morand, 1995; Turner and Müller, 2004). The style of formal communication is more about reports and briefing, whereas the style of informal communication is more about *ad hoc* conversations and memos (PMI, 2000). Among different communication channels, clients perceive the formal reports as the most credible source to transfer information (Johnson et al., 1994). Generally, what type of content project managers want to transfer or discuss with their clients decides which type of media they tend to choose. As showed by Muller (2003), communication contents are intertwined with communication media and cannot be separated from each other. However, when companies are trying to solve creative problems, frequent, bidirectional, and face-to-face interaction with their customers is needed (Verma et al., 2012).

By reviewing the literature, Turner and Müller (2004) suggest the best combination of communication forms: 1) project managers should keep a balance of formal and informal communication methods; 2) they need to keep regular face-to-face meetings with clients; 3) using quantitative data to increase source credibility when analysing performance or when it is required by clients.



### **3.4.11 Communication frequency**

Communication frequency is defined as the number and timings of the communication between service providers and their clients (Turner and Müller, 2004). By reviewing the literature, Turner and Müller (2004) summarised that the communication frequency between clients and project managers could be classified into two categories: calendar driven and event driven. Calendar driven refers to the communication happening at daily, weekly, bi-weekly or monthly intervals and event driven refers to the communication happening at specific project stages or milestone completion. According to prior literature about project management, project managers should have more frequent and less formal communication with their clients by using frequent phone calls or using some Internet web-sites to keep record of project progress, to achieve the best project results (Müller, 2001). However, Turner and Müller (2004) argue that too much communication between clients and project managers may result in the risk of ‘overloading’ clients with unnecessary information and details, which, in a further step, may cause the clients to feel concerned about the knowledge about the project and then become over involved in the project and make project managers lose their authority.

### **3.4.12 User-based service innovation**

*“User-based service innovation”*, which is conceptualised by Sundbo and Toivonen (2011), stresses service providers’ understanding and acquisition of user needs and how to utilise this understanding to develop new services, and in some situations, service providers and users will co-develop innovations. In a co-innovation process, users may act as partners, original sources of innovations, or further developers of some existing innovations (Sundbo and Toivonen, 2011). With the technology development, the trend of user-centred innovation is accelerating and users are becoming more capable of innovating (von Hippel, 2005a). Furthermore, Hienerth et al. (2014) point out that individual users can be viewed as more efficient innovator than producer employees when using innovation spending per innovation developed as the criterion. Also, Oliveira and von Hippel (2011) have identified the significance of service innovation by users. Therefore, service companies cannot neglect the importance of users in service innovation.

### **3.5 Conclusion**

This chapter has developed a general understanding of innovation process and co-creation. The existing innovation processes mainly include four phases: the preliminary phase, the idea generation phase, the idea development phase, and the idea implementation phase. The new service development process can be regarded as the breakdown of the innovation process to investigate the activities involved in detailed stages. In this study, co-creation is defined as the various degrees of active involvement of customers in the upstream activities in the innovation process, such as creation/ideation, design, elaboration, production, and the like, to create something new together. The purpose of this definition is to differentiate co-creation from co-production and to explicitly point out the meaning of co-creation in this study.

The importance of client involvement is highlighted in this chapter. Co-creation can help companies develop more innovative solutions and increase the knowledge exchange between the co-creation parties, which, in turn, facilitates the learning among the involved parties. In the co-creation process, the service providers and clients should have a clear idea of their tasks in the process. Because the activities performed by service providers and clients vary from stages, the roles played them, the intensity of their co-creation, and the interaction approaches used tend to differ from stages.

## **4 Literature Review 3: KIBS Project Innovativeness**

### **4.1 Introduction**

As introduced in the introduction section, most KIBS firms are project-based organisations and the project-based work is their main work organisation form (DeFillippi and Arthur, 1998; Strambach, 2008), which signifies that their new service offerings are developed in projects. In accordance to the research of Grabher (2002) and the characteristics of KIBS, advertising firms are project-based organisations. Among the projects in KIBS firms, some are more routine or commoditised, while others are more tailored, innovative and customised. This means some projects can be classified as routine projects and other projects are innovative projects. The tasks of KIBS are to fuse generic knowledge with local and special knowledge related to specific problems to develop problem solutions for their clients (Miles, 2005) and the innovation occurs in KIBS is mainly by applying existing knowledge or by making new combinations of knowledge (Asheim, 2005; Hansen et al., 2005). This indicates that KIBS need to consider the knowledge of the project problem and of the potential solution. Since the characteristics of projects and the requirements of solutions are different, the amount and the degree of new knowledge required for different projects tend to be varying. Thus, to the service provider, the innovativeness involved in projects is likely to be different.

In KIBS firms, cross-functional teams are their core form to conduct their work. The people in the cross-functional team possess different knowledge bases and the way to develop innovative service solution/product is by integrating different types of knowledge (Nov and Jones, 2003). To some projects, particularly the routine project, employees may be able to develop the solution by relying on the company existing knowledge bases, while regarding the innovative projects, the cross-functional team may be not able to find out all the required knowledge from the existing knowledge bases, which indicates a high level of uncertainty. Therefore, in different projects, the resource commitment required varies. Also, as indicated by the Chapter 3, the co-creation between service providers and clients is influenced by the project characteristics. Therefore, the following chapter reviews the literature of projects, the project-based organisations, (project) innovativeness, and how the level of innovativeness involved in projects influences new service development in the

competence required in projects, the co-creation intensity, and the involvement of decision makers.

Section 4.2 is to develop a general understanding of projects by reviewing the definition of projects and the characteristics of projects. Section 4.3 introduces project-based organisations. Section 4.4 reviews the literature related innovativeness (product innovativeness and firm innovativeness). Moving on from the understanding of project-based organisations and innovativeness, section 4.5 introduces the term-KIBS project innovativeness and attempts to develop a formal definition for the term. Section 4.6 discusses the possible influences resulting from different innovativeness involved in distinctive projects on the new service development stages, the level of competences required from project participants, the involvement of decision maker, and the interaction (co-creation) between service providers and clients. Section 4.7 is the summary of this chapter.

## **4.2 Overview of projects**

According to the definition of PMI (2013), projects can be viewed as the effort, which has a beginning and an ending point, to solve problems and then reach results or create new products or services. The outcome of a project can be a product, a service, an improvement of an existing service or product process, a corporation change plan, etc. (PMI, 2013). According to PRINCE2<sup>4</sup>, the top characteristics of projects are change, temporary, cross-functional, unique, and uncertainty (PRINCE2, 2017). Change means that projects are often used as a way to make changes. Temporary represents that a project usually has a starting and an ending point. Cross-functional refers to the working mode of a project. In a project, the project team members include the employees from different departments and seniority. Unique means that different projects usually have some differences in some areas with other projects. Sometimes, the difference is to a larger extent, whereas, in other times, the difference is to a smaller extent. The last project characteristic is uncertainty. Unique brings uncertainty to projects. Therefore, for every project, there should be some uncertainty involved in the project. The difference is the degree of the uncertainty.

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<sup>4</sup> PRINCE2 stands for Project IN Controlled Environments 2 and represents a generic method used to manage any type of projects.

Projects can vary in different ways, for example, in location, in budget, in complexity, in uncertainty, in size, in working structure, etc. (PMI, 2013). Although projects are unique, the general project life cycle structure that they need to go through is the same, including four phases: starting the project, project organising and preparing, carrying out the project work, and closing the project (PMI, 2013). In order to reach the project objectives, the project team plays a significant role. Generally, the project team consists of the project manager and a group of individuals who are specialised in different areas and work together to achieve the project objectives (PMI, 2013). In different projects, the project structures and characteristics tend to differ from each other. Also, the composition of project team is based on the organisational culture, organisational structure, the location of team member, and project scope (PMI, 2013). The authority of the project manager in different projects also varies widely. In some projects, the project manager has full organisational authority over the members of the team, while in some other teams, the project manager may only have little authority on the team members. For instance, some projects are partnership-based with other organisations. In such cases, the project can be established as a joint venture, alliance, partnership, consortium with several organisations through cooperation agreements or contracts (PMI, 2013). In terms of such projects, project managers have very low degree of control of team members.

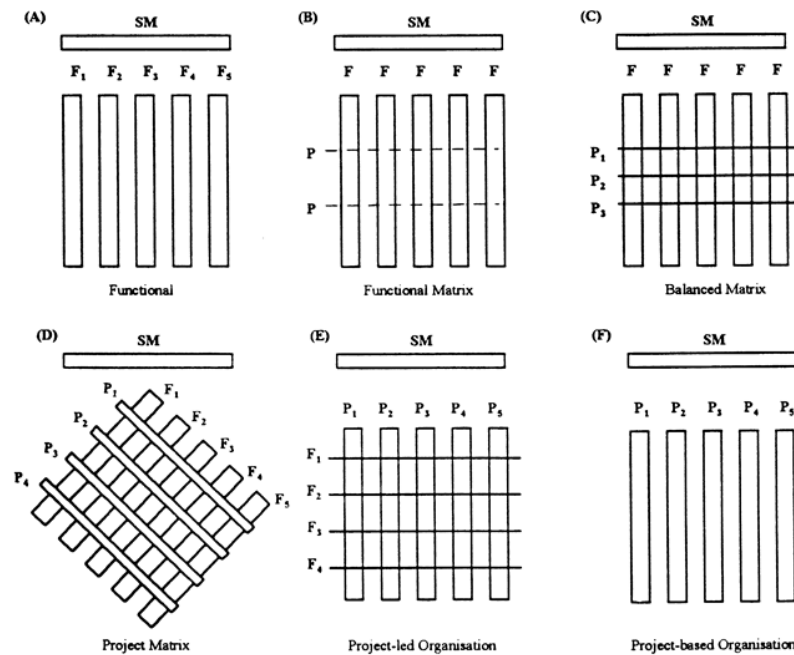
In order to achieve project goals, companies need to use specific approaches to manage projects. Project management refers to the application of a series of techniques, methods, tools, skills, and knowledge to reach specific project goals (PMI, 2013). The research of project management started at least six decades ago and has become a discipline with a wide range of literature (Mir and Pinnington, 2014; Padalkar and Gopinath, 2016). Project management includes different processes: initiating, planning, executing, monitoring and controlling, and closing (PMI, 2013). Through the application and integration of these processes, companies are able to manage projects in a systematic way. Also, there are a series of commonly accepted standards and methodologies of project management processes created by *PMBOK® Guide*. These standards can be used into different industries.

### 4.3 Project-based organisations

According to the definition proposed by Hobday (2000), the project-based organisation (PBO) is the “*one in which the project is the primary unit for production organisation, innovation, and competition*” and exists in manufacturing enterprises, legal professional firms, consultancy firms, the film industry, marketing, and advertising. Such firms are formed to develop specific project solutions or products and the employees in these organisations move between different projects (DeFillippi and Arthur, 1998). Through the work on major projects, the project-based organisation builds its knowledge, capabilities and resources (Hobday, 2000).

In terms of the forms of organisations, Larson and Gobeli (1987; 1989a) delineate three different types of matrices based on the work of Galbraith (1971; 1973): the functional matrix, the balanced matrix, and the product (or project) matrix. In the functional matrix, the power of project manager is limited to reporting progress to functional managers, monitoring progress and coordinating resources; in the balanced matrix, the project manager shares the responsibilities and authority with functional managers; in product (or project) matrix, the project manager possesses the authority of deploying personnel, finance and other related resources. In terms of the extreme form - the pure product or project based form, the businesses in firms are solely based on product or project lines (Hobday, 2000). Based on prior literature, Hobday (2000) lists six ideal types of organisational forms which range from pure functional form to pure project form: the pure functional form, the functional matrix, the balanced matrix, the project matrix, the project-led organisation, and the project based (pure project) organisation.

**Figure 4.1 The list of the organisational forms**



**Key:**

- \*  $F_1, F_5$  = various functional departments of the organisation (eg Marketing, Finance, Human Resources, Engineering, Manufacturing, R&D)
- \*  $P_1, P_5$  = major projects within the organisation (eg CoPS projects)
- \* SM = senior management

**Note:**

- \* The number of functions and projects will vary according to the organisation in question. Various permutations are used here for illustration.

Source: Hobday (2000)

The project-led organisation does not appear on the previous literature; it is identified by Hobday (2000). It refers to the organisation in which the influence of projects exceeds the functional influence on firms' decision making process to senior management. Although Hobday (2000) distinguishes the differences between project-led organisations and project-based organisations, in the definition of Blindenbach-Driessen and Van Den Ende (2006), both project-led organisations and project-based organisations belong to project-based firms. In this thesis, we adopt the view of Blindenbach-Driessen and Van Den Ende (2006) in terms of the classification of project-based firms.

In a dynamic and uncertain environment where organisations need to meet constantly changing client requirements and learn in real time, the project-based organisation (PBO)

tends to be the most suitable form for meeting innovative needs (Hobday, 2000). Hobday (2000) argues that in the literature of the project-based organisation, the project-based organisation processes are ill-defined. Generally, the difference between business processes and project processes is that business processes should be ongoing and repetitive, while project processes tend to be unique and temporary (Brusoni et al., 1998; Gann and Salter, 1998; Gann and Salter, 2000). Gann and Salter (2000) suggest that because project-based firms are based on one-off projects and are involved in multi-actor environments, the relationship between business and project process plays a significant role in understanding project-based firms and how these firms gain sustainable advantages over time. They argue that in project based firms, integrating the experiences of projects into firms' business processes is the approach to ensuring the organisation coherence. The core resources that the project-based firm provide are the necessary support to projects and in turn, the feedback from projects plays the role of replenishing the core resources (Gann and Salter, 2000). This suggests that the learning from different projects varies. Yet, Gann and Salter (2000) note that some construction firms' bids are too bespoke to let firms capture knowledge from them or be recycled.

In project-based firms, project managers represent a very high status and have direct control over personnel, business functions, and service/product production related resources (Hobday, 2000). Project managers or directors act as resource coordinator by supporting the needs of projects and coordinating business functions (Hobday, 2000). In project-based organisations, their resources, structures, and capabilities are organised to meet the needs of projects (Hobday, 2000). Additionally, in project-based firms, their innovation processes, structures and business processes are largely shaped by the complexity, duration, and size of projects (Hobday, 2000). Therefore, the characteristics or profile of projects largely influence how they develop the related services or products. Moreover, Hobday (2000) notes that in some project-based organisations, their major new projects are their core innovation events, which brings up new business opportunities and helps them develop new technological trajectories. Thus, the role of new projects is important to project-based organisations. Unlike the traditional linear project management model where users and other innovation related actors are treated as 'outside bodies', the project management model in project-based organisations should treat the users and other innovation related actors as the core in project processes (Hobday, 2000). In addition, the project management model in project-based



organisations is a concurrent model which enables the organisation to realise innovation by collaborating with suppliers and clients (Hobday, 2000). When comparing with the functional form, the project-based organisational form is more effective in integrating a variety of skills and knowledge, coping with project uncertainties and risks, and learning from projects (Hobday, 2000). However, it is challenging for project-based organisations to coordinate resources, capabilities and processes across the firm as a whole (Hobday, 2000).

A project-based firm may achieve success in certain projects, but such success cannot guarantee the success in other projects as most project-based organisations have the ‘learning closure’ problem (Hobday, 2000). Some other scholars have also identified that the fundamental challenge in project-based organisations is the issue of how to obtain organisational capabilities by project level learning (Salter and Tether, 2014; DeFillippi and Arthur, 1998). Most project-based organisations lack incentives or mechanisms in cross-project communication or learning (Hobday, 2000). In contrast, functional departments often create opportunities for their employees to share their knowledge and experience, which is an advantage of the organisations organising in the functional form (Hobday, 2000). One approach identified by Hobday (2000) to solving the ‘learning closure’ problem is by adopting a project-led organisational form rather than a pure project-based organisational form. Norman (2004) points out that many knowledge-intensive service firms have attempted to invest in knowledge management to improve the project performance and increase the knowledge sharing across projects. The approaches used include the investment in IT systems to store knowledge in data and documents and the introduction of cultural change initiatives to encourage the sharing of implicit knowledge within the organisation (Salter and Tether, 2014). These approaches reflect the increasing acknowledgement of the importance of knowledge management in KBIS firms.

#### **4.3.1 CoPS**

In fact, the project-based organisation (PBO) can be treated as an ideal form in managing a special type of projects called CoPS. Hobday (1998) defines “*complex products and systems*” (CoPS) as involving “*high cost, engineering-intensive products, systems, networks and constructs*”. Hobday (2000) contends that the first three organisational forms (in figure 4.1) tend to be unsuitable to manage the CoPS. This is

because these forms have difficulty in performing non-routine and complex project tasks in a dynamic, risky, and uncertain environment (Hobday, 2000). In CoPS projects, project managers need to have ‘super-heavyweight’ professionals as their responsibilities are to integrate both commercial and technical business functions within projects and establish successful communion lines with external organisations, including both clients and collaborating companies (Hobday, 2000). According to the perspective of Hobday (2010), these external innovation actors are quite different from each other in goals, structures, and cultures, thus, the project manager of CoPS undertakes the role of skilfully negotiating with them to ensure the successful completion of the project. Hobday (2010) notes that the pure project-based organisation may be the most suitable form for large innovation projects and single project firms in which resources need to be integrated and shared with other organisations. Therefore, having the ability of mobilising and managing a wide range of capabilities is necessary for constructing complex products and systems (Gann and Salter, 2000). In the innovation literature, the issue related to project-based, service-enhanced forms of organisations is still ill-defined (Gann and Salter, 2000).

In accordance with the view of Hobday (1998), the products of CoPS project organisations are characterised by high unit cost, having long product cycles, having many professional knowledge inputs, involved many tailored components, and having complex component interfaces. In order to develop these products, the organisation needs to manage multi-firm alliances in temporary projects and focus on product design and development (Hobday, 1998). Usually, the clients of these organisations are other businesses (Hobday, 1998) and their participation is significant in developing innovative products. Particularly in some projects which are closely related to the customer’s performance and profitability, customers tend to be closely involved in the main innovation process (Hobday, 2000).

As shown by definition, CoPS embody some degree of complexity and risk (Hobday, 1998). In order to further explore the nature of CoPS, Hobday (1998) develops a list of critical dimensions to define the project characteristics and product complexity. The dimensions utilised by Hobday (1998) to define project complexity include the quantity of customised components, the number of alternative design paths, the intensity of user involvement, the range and depth of knowledge and skills required, the extent of new

knowledge involved in the production process, variety of involved knowledge bases and some other dimensions. The breadth of skills and knowledge represents the variety of different skills and knowledge required to produce the final product.

According to some previous research (Hobday, 2000; Grabher, 2002; Strambach, 2008), the organisational form of advertising companies can be regarded as project-based organisations. Though CoPS refer to complex and big projects, it is suitable to be applied into the advertising industry to some degree. For example, advertising companies can be involved in a project which is to make a poster and release all over the world. Different from other project-based organisations, advertising companies are the creativity focused organisation and can be regarded as creative project-based services (CrePS) organisations. Similar to the definition of CoPS, creative project-based services are the ones in which the project is the primary business unit and focuses on the creativity development. Therefore, these services include advertising service, design service, art service, etc. Thus, the literature of how to manage CoPS could provide some guidance in how to manage CrePS.

As with the projects in CoPS, the projects in CrePS are normally one-off projects. Some of them are routine projects, while some others are innovative projects. Routine projects refers to the projects that they have much experience and knowledge on it (Nikolova et al., 2009). Accordingly, innovative projects refers to the projects which they lack related experience and knowledge (Nikolova et al., 2009). According to the view of Nikolova et al. (2009), the more complex and innovative the project is, the greater risks of generating disappointment are, and, in a further step, the greater the need to manage the relationship is. Based on the argument of Nikolova et al. (2009), the nature of the interaction between clients and service suppliers and the procedure of developing innovative solutions are different between regular projects and innovative projects. Therefore, the degree of innovativeness of consulting projects strongly influences some key aspects of the problem-solving process (Nikolova et al., 2009). However, as the results of Nikolova et al. (2009) are just based on seven Herrmann & Partners consulting projects, empirical studies are required to ascertain the generalisability and validity of the results. Also, they only mentioned the new project and innovative projects in their research rather than defining these terms in a clear way. Therefore, much ambiguity exists in the meaning of the innovativeness in projects and its

influences. Therefore, it is important to clarify and find out the difference of routine projects and innovative projects in new service development process.

#### **4.4 Innovativeness**

Innovativeness is often leveraged to measure the newness degree of an innovation (Garcia and Calantone, 2002). Thus, the products which have a high degree of newness can be regarded as highly innovative products. However, many scholars have different views regarding whose perspective should be used to view the degree of newness and what are regarded to be new (Garcia and Calantone, 2002). By reviewing the related literature, Garcia and Calantone (2002) find that most studies measure the level of newness from a firm perspective, but other studies take the perspective of new to the world (Kleinschmidt and Cooper, 1991), new to the industry (O'Connor, 1998; Schmidt and Calantone, 1998), new to the customer (Atuahene-Gima, 1995), or new to the market (Meyers and Tucker, 1989), or new in some other aspects. In terms of what is new, the perspective also varies. It can be new technology, new product line, new process, new service, new customers, etc. In the article of Besner and Hobbs (2008), the criteria that they use to classify innovation project is based on the innovativeness of the product produced by the project or the concept or technology involved in the project. Kelley and Lee (2010) find that in most studies, the degree of discontinuity in technological factors or in marketing is used to measure the level of innovativeness. Therefore, there is a continuing debate of what elements should be used to assess the newness of products or services.

Innovativeness can also represent firm's propensity toward innovation (Hurley and Hult, 1998), which can be defined as firm innovativeness and is different from the above definition of product innovativeness. Recent reviews of innovativeness suggest that it is best understood to be a multidimensional phenomenon (Avlonitis et al., 2001; Danneels and Kleinschmidt, 2001; Gemünden et al., 2005), which generally involves four dimensions: market, technology, organisational change, and environmental alterations. Using multidimensional approach to measuring innovativeness is helpful to show the complexity of innovativeness. Therefore, in this paper, we also adopt the multidimensional view of innovativeness to study project innovativeness. However, most studies relating to innovativeness focus on the investigation on product innovativeness (Rochford and Rudelius, 1997) or firm innovativeness.

#### **4.5 Project innovativeness in KIBS**

In a company, managers have a portfolio of projects which have different degrees of innovativeness, ranging from new-to-the world, radical innovations to incremental innovations or line extensions (de Brentani, 2001). Most KIBS are project-based (as are some other industries) (DeFillippi and Arthur, 1998; Salter and Tether, 2014; Strambach, 2008); when output is a succession of individual project results (for business clients), the nature of innovativeness may be quite distinctive. In KIBS firms, their work spans different extent of innovativeness and novelty (Salter and Tether, 2014). Many of their projects involve the application of the relatively routine knowledge, while other projects are more dependent on new solutions (Salter and Tether, 2014). They point out that in many KIBS firms, the routine projects which apply repeat solutions bring low projects and uninteresting work, while the non-routine projects which require new solutions enable firms to build their reputation and capability and often have higher margins. However, routine projects can help reduce learning and transaction costs (Léger and Swaminathan, 2007). Yet, some scholars argue that such routines lead companies have more tendency to resist to change and in a further step, influence the development and adoption of innovation in the medium- and long-run (Nelson and Winter, 2002). Strambach (2008) also claims that KIBS firms should invest more in engaging in new projects as such projects can enable them to obtain new capabilities, which in turn, makes them adapt to the fast-changing business environment and gain competitive advantages.

However, whether it is in the new project or in the routine project, KIBS firms have a wide range of operating routines to assist their companies' in performing projects effectively, such as project reviews, team formation mechanisms and procedures, post-project reviews, and knowledge management systems (Hansen et al., 1999; Løwendahl et al., 2001; Sarvary, 1999). Therefore, another purpose of this thesis is to explore project innovativeness in KIBS and how it influences new service development.

Although the term project innovativeness was used in some studies (Gemünden et al., 2005; Hüsig, 2012; Kelley and Lee, 2010), the projects that they investigated were used to develop new products. In other words, the companies that they investigated are quite different from KIBS. Also, in their studies, project innovativeness refers to the innovativeness of the developed innovative product in projects. Therefore, the meaning

of project innovativeness in these studies is different from its meaning in this thesis. Some of these papers used four dimensions to measure project innovativeness: market dimension, technology dimension, organisational dimension and environmental dimension. Since this thesis focuses on new service development in KIBS, project innovativeness should also be measured by different dimensions.

#### **4.5.1 The meaning of project innovativeness in KIBS**

In accordance with the contingency theory, there is no single organisation structure that can be effective in all different circumstances (Tidd and Hull, 2006). Although there are increasing numbers of researchers taking the difference of projects into consideration in their articles, “*one-size-fits-all*” approach still takes the dominant role in most currently adopted practices (Maylor et al., 2008). In terms of the research taking into account the project differences, most of them base their research on the development of products and use the technology uncertainty to classify different types of projects (Shenhar, 2001; Shenhar, 1998). Therefore, the research investigating project differences by using the contingency view is still rather rare in the literature. In order to explore the differences among projects, Shenhar (2001) used project technological uncertainty and complexity to classify projects into different categories. Afterwards, Shenhar et al. (2004) developed a more comprehensive model – the NCTP-Model to illuminate the difference between projects. The NCTP-Model is comprised of four dimensions: novelty, complexity, technology, and pace. Although there are an increasing number of scholars realising the importance of studying different project types, only a few studies apply contingency theory in managing different types of projects (Howell et al., 2010). By reviewing the literature identifying contingency factors, Howell et al. (2010) identified five themes in categorising different projects: uncertainty, complexity, team empowerment, criticality, and urgency. Although there are increasing numbers of researchers taking the difference of projects into consideration in their articles, almost none of them explore the difference of innovativeness in projects in KIBS. Projects are the basic unit of businesses in KIBS firms. With the importance of innovation being recognised by an increasing number of firms, exploring the innovativeness between different projects will contribute to developing more innovative project solutions. Therefore, exploring the issues related to project innovativeness is beneficial to project management in KIBS firms.

The tasks of KIBS are to integrate generic knowledge with local and special knowledge related to specific problems to develop problem solutions for their clients (Miles, 2005) and the innovation in KIBS is mainly about the recombination or development of existing knowledge from the company knowledge base or external knowledge bases (Asheim, 2005; Hansen et al., 2005). Therefore, when operating knowledge-intensive projects, the service company needs to take their knowledge of the project itself and the knowledge of the potential solution into consideration. Therefore, based on the view of Nikolova et al. (2010) in regular projects and innovation projects, we argue that project innovativeness in KIBS is defined as the novelty of the project to the service company and is related to whether the service company has the relevant experience of operating the project. Here, project innovativeness in KIBS is termed as **KIBS project innovativeness**. Therefore, **KIBS project innovativeness** is a new term coined in this thesis to explore the innovativeness involved in KIBS projects. It is highly related to project uncertainty. As uncertainty is positively associated with the level of newness, a higher level of innovativeness indicates a higher level of uncertainty (Kelley and Lee, 2010). Such uncertainty can be divided into two dimensions, which are the knowledge of the (project) problem itself and the solution innovativeness. The classification of innovative and routine projects in this study is partly similar with the classification of Besner and Hobbs (2008) who define innovation projects as the ones which produce a new product or utilise a new concept or a new technology to develop the project product, and define non-innovative projects as the ones which produce a standard product by using low innovative content of technology. Yet the classification in the research of Besner and Hobbs (2008) only takes the solution innovativeness into consideration. The classification of innovative project and routine project in this thesis is not limited to the consideration of the innovation of the project product or project solution, but also takes the uniqueness of KIBS projects into account. Therefore, KIBS project innovativeness is determined by the novelty of knowledge required to understand the (project) problem itself and to develop the potential solution (solution innovativeness). Solution innovativeness refers to the novelty of the solution to the advertising company.

In fact, as for the newness, it is easier to be recognised in industrial products than in services (Sundbo and Toivonen, 2011). Particularly in some of the creative industries, the innovation is characterised by aesthetic feature (Stoneman, 2007) or content creativity (Handke, 2004a; Handke, 2004b), which increases the complexity and

difficulty of defining innovation or solution innovativeness. As discussed in Chapter 2, there are mainly three service innovation dimension models in the literature and all models accentuate the importance of service concept, technology, user interface, and delivery. Yet, in the advertising industry, the core is the advertising idea. The scholars - Ang and Low (2000), Smith et al. (2007) and West et al. (2008) have all highlighted the importance of advertising content newness in determining advertising creativity. For instance, Ang and Low (2000) argues that the advertising creativity is related to three dimensions: novelty, meaningfulness and emotional content. Thus, the advertising idea can behave different in a wide range of ways, for example in the advertising format, in the advertising content, in the characters used in the advertising, or in the advertising scripts. Therefore, the solution innovativeness in advertising tends to be determined by a wide range of elements.

We have talked about two features that affect KIBS project innovativeness. Later, in our result, we shall look at the combination of these features in the advertising case. For now, let us just take it as given. Projects are varying in their project innovativeness.

#### **4.6 The influences of project innovativeness on the new service development process**

An increasing number of people have realised that different types of projects operating in different contexts tend to require different development processes to secure their success (MacCormack and Verganti, 2003). In projects having greater uncertainty, early market feedback, early technical feedback, and investments in architectural design have a greater influence on performance (MacCormack and Verganti, 2003). Thus, MacCormack and Verganti (2003) suggest that managers must take the levels and sources of uncertainty into consideration before deciding the suitable development process to carry out projects. Although their research is based on 29 Internet software development projects, these projects are also knowledge-intensive projects, which sheds some light on the development of other types of knowledge-intensive projects. Avlonitis et al. (2001) claim that the performance of a new service is determined by the service development process that it follows, which, in turn, is affected by the new service innovativeness. The new service development process can be regarded as to be constituted by three main components: the “what” component, which refers to the new service development activities; the “how” component, which represents the process



formality; and the “who” component, which is about the cross-functional involvement (Avlonitis et al., 2001). Therefore, the new service innovativeness included in a project influences the design of the service development process. Therefore, the thesis will explore how KIBS project innovativeness influences these components of the new service development process.

In addition, Besner and Hobbs (2008) have identified a series of key factors influencing the success of innovation development by reviewing the literature, including strategy used, the communication and collaboration, the shaping of cross-functional team, resource allocation, portfolio management, project selection, better-phase gates processes, the engagement of senior management, and the organisational culture. They point out that the management of innovation project (the project involves the development of new product by using new concept or new technology) is different from the management of the projects which produces standard products involving low innovative content or technologies. Although there are numerous studies researching the effect of customer co-creation, the issue of whether such effects rely on the extent of the development project’s innovativeness is still an unanswered question (Verma et al., 2012). In Chapter 3, the thesis discussed how KIBS firms engage with their customers by exploring co-creation process and the activities performed and the roles played by service suppliers and clients and the interaction approaches used in the process. Therefore, following the discussion in the last section, in this section the purpose is to explore the how KIBS project innovativeness influences the new service development stages, the activities involved, the people involved in the process, and the interaction approaches used in the new service development process.

#### **4.6.1 Influence on new service development stages**

As discussed in Chapter 2, having a formal new service development process is important to firms. However, as the nature of service innovation in many service industries is *ad hoc*, the new service development process used is often reported as *ad hoc* and characterised by trial and error (Menor et al., 2002; Stostack, 1984). Also, Kahn et al. (2006) note that in radical or entrepreneurial contexts, formalisation may not be able to generate positive effects in stimulating creativity and innovation as in such situations, informality tends to be conducive to creativity and innovation. Having too much formalisation in the process or using too rigid process may stifle employees’

creativity in thinking radically creative and innovative (Kahn et al., 2006). The importance of process flexibility is emphasised by Davidson et al. (1999), who contend that a successful company should know how to adjust their development process to the organisation's needs and desires. For a project with little or no uncertainty, a formal development process is more effective; when the project has greater uncertainty, a more flexible process is required (MacCormack and Verganti, 2003). Although project autonomy tends to have a positive influence on project success, increasing levels of autonomy is also associated with risks (Gemünden et al., 2005). Some scholars argue that in managing different projects, the involved activities may be unique and are related to the specific project problems and characteristics, but the process that these activities follow tends to have a high level of commonality among different projects (Davies and Brady, 2000).

According to the perspective of Rochford and Rudelius (1997), products tend to have different levels of innovativeness or “newness” to the market. Because of the difference in innovativeness, different products are likely to put varying emphasis on specific development stages (Rochford and Rudelius, 1997). In a similar vein, in service firms, the project innovativeness tends to influence how firms treat the project. However, very few studies investigate the same issue in service firms.

#### **4.6.2 Influence on the project participants**

As discussed above, one of the important components in the new service development process is the people involved in the process. In project-based organisations, the people-embodied knowledge plays a crucial role in the innovation process (Hobday, 1998). Atuahene-Gima (1996) explored the different factors perceived by managers in affecting the development of new service and new product. According to his research results, the managers' perceptions of the factors in influencing innovation performance in manufacturing and service firms are the same, but the importance of these factors differs. The most important factor for developing services is the human resource strategy used in the firm, while this factor is less important in manufacturing firms. When comparing with manufacturing firms, successful service firms have to place higher emphasis on selection, development and management of the team members working closely and directly with customers (Atuahene-Gima, 1996). This indicates the importance of designing project teams and selecting team members in developing new

services. In KIBS firms, people are the key element and actor in solving client problems. Their capabilities directly decide the performance of projects. The people involved in the innovation process typically have different knowledge bases and they need to integrate different types of knowledge to develop the innovative solution (Nov and Jones, 2003). Creative processes in advertising agencies are not just dependent on few “creatives” (Nov and Jones, 2003), but rather a collaborative process requiring the collaboration of each project member. In advertising agencies, the creative processes consist of cross-functional collaboration and the heart of the creative process is likely to be located in the cross-functional knowledge flows (Nov and Jones, 2003). Therefore, the knowledge that the project members have plays a critical role in developing the solution. As discussed above, KIBS firms are mainly project-based organisations and different types of projects in KIBS firms tend to have different levels of project innovativeness. The project innovativeness in KIBS tends to influence the project team building and project member selection. The project development members, the contact members and the participants from client-side all play critical roles in determining the success of projects (Johne and Sotrey, 1998).

In KIBS firms, the competence that employees have is KIBS firms’ core competitiveness. In the literature, competence refers to the knowledge and skills of individuals (Andrews, 1971; Mooney, 2007). However, the experience that individuals have of the same knowledge and skills is different. Therefore, in this thesis, the level of competence is defined as the level or the experience of the knowledge and skills that individuals have. According to the discussion of creativity in the study of Amabile (1988), “*domain-relevant skills*” and “*creativity-relevant skills*” are the two important dimensions. These two dimensions represent the knowledge, technical skills, and talent that individuals need to possess to produce creative products and the required cognitive skills and personality traits. Therefore, project participants’ competences and how these participants interact with each other should impact the creative process development. This is in line with the argument of Öberg (2013). Although Öberg (2013) has studied the creative processes from a competence point of view, she did not take the level of competence and the interaction internally (within the project team) and externally (the interaction with the client project team or external organisations) into consideration.

Since different projects in KIBS have distinctive levels of project innovativeness, the level of competence required from project members to develop new services tends to vary across diverse projects. In the project with high level of innovativeness, the service firm tends to assign the employees with a high level of competence into the development process, for example, the senior staff. Here, the senior staff can be divided into two different types. One refers to the people who have worked in the similar projects before and understand that type of project well. They are experienced staff in the company, but they are not the final decision makers of the project that they are involved in. The other refers to the staff who take important management roles in the company, such as the directors of different departments. Regarding this type of senior staff, they are the decision makers of different projects. In project-based firms, in order to manage the process, managers need to arrange a wide range of tasks and uncertainty (Maylor et al., 2008), which implies the importance of project managers in projects. Therefore, their involvement in different types of projects has a significant influence on the project performance and their involvement in the process tends to be also influenced by the project innovativeness. As discussed above, ‘regular projects’ refers to the projects in which they have much experience and knowledge, while ‘innovative projects’ are the new projects which they lack related experience and knowledge. In general, the more complex and innovative the project is, the greater risks of generating disappointment are, and, in a further step, the greater the need to manage the relationship is (Nikolova et al., 2009). This indicates that innovative projects tend to require more decision makers and more experienced staff involvement in the process.

Additionally, the primary premise of the contingency model proposed by Olson et al. (1995) is that the more product innovativeness a development project involves, the more organic and participative coordination mechanisms are required in the development process. When involved in a development process with new and innovative products, employees have less relevant experience to utilise and tend to regard their tasks as more difficult as well as are more likely to seek help from other functional specialists to collect the required information, resources and expertise to develop a creative and successful solution. The same logic tends to be suitable to be applied into the development of new services with different innovativeness. The research of Olson et al. (1995) suggests that when developing truly new and innovative products, using more participative structures in the development process tends to facilitate the effectiveness

and timeliness of the process. A good fit between the degree of innovativeness of the product in the development project and the coordination mechanism employed is better for achieving greater performance outcomes (Olson et al., 1995). Therefore, how to match the project innovativeness in KIBS and the collaboration between project members plays an important role in influencing project success.

Besner and Hobbs (2008) assume that managing an innovation project which produces new product or involves using new concept or new technology, and a project which produces standard product involving low innovative content, is different. According to the results of Besner and Hobbs (2008), the project manager's or director's participation during the front end of the project (the initial phase: the project initiation stage and the concept development stage) is one of the core factors discriminating the innovation projects delivered by the high-performing organisations. Apart from this, the availability of competent personnel has the positive effects on assisting companies in achieving better performance in innovative projects (Besner and Hobbs, 2008). All these indicate that the level of project innovativeness in KIBS is likely to influence the level of participants' competence and the degree of decision makers' involvement in the project.

As discussed in Chapter 2, customers are the driving force of new service development in KIBS firms and their involvement in the development process is necessary. They are another important group that should be managed in the course of the process. Many scholars point out that there is a positive relationship between the customer involvement and the company success (Enkel et al., 2005; Gassmann, 2006; Ogawa and Piller, 2006; von Hippel, 2005a). In creative industries, the solution developed is heavily dependent on the information collected from customers, therefore, the project innovativeness tends to have influence on the interaction of different departments in the client organisation and on how KIBS firms co-create with customers.

#### **4.6.3 Influence on the interaction between service companies and clients**

When a project has more task uncertainty, more information is required to understand the project, which in turn affects the communication structure (Galbraith, 1977; Tidd and Hull, 2003). According to the research of Verma et al. (2012), the effects of co-creation are different in radical and incremental innovations. Their research indicates

that when developing the content of radical innovation, customers are not highly likely to be involved. They demonstrate that in the projects of developing incremental innovations, companies need to aware and emphasise the importance of the three dimensions of customer co-creation: frequency, direction and content. These three co-creation dimensions are equally related to product and market success. Therefore, the research of Verma et al. (2012) implies that when developing incremental innovations, service companies can improve the innovation success rate by spending time with customers. In other words, by involving clients in the innovation process, service companies tend to have high possibility in achieving success in the development projects (Verma et al., 2012). From their research, meeting and communicating with customers in their environment can increase the opportunities of product and market success. This is in line with the importance of the transfer of sticky information in previous studies and of the involvement in customer contexts (Verma et al., 2012). Due to the difference of the importance of communication dimensions in the co-creation process for radical and incremental innovations, Verma et al. (2012) suggest that companies should apply different communication strategies when dealing with the projects with different degree of innovativeness. In developing radical innovation, they find that frequent communication with customers plays an important role in increasing the product and market success. However, as radical innovation is usually unknown in advance, companies should not overly concern the content suggested by customers for a new product or service (Verma et al., 2012). As customers' suggestions derive from their previous experience of using different products or services, it is difficult for them to propose really radical ideas.

Müller (2003) presented a quantitative study by using Transaction Cost Economics and Media Richness Theory as well as a worldwide survey; this investigated the influence of organisation structure, relational norms, and project risks on the choices of project managers in communication contents, frequency and media, in the business-to-business markets of information technology. From the quantitative study of Müller (2003), there is a positive relationship between project risk level and communication frequency and the frequency for face-to-face meetings and a negative relationship between project risk and the preference for written reports. Therefore, project risk impacts communication approaches as organisations need to choose proper communication channels to mitigate risk (Turner and Cochrane, 1993).

## **4.7 Conclusion**

This chapter has developed a general understanding of projects in KIBS by the review of project characteristics and project-based organisations. Projects are unique and involve uncertainty, which suggests that the innovativeness involved in projects varies. This chapter has defined KIBS project innovativeness as the new knowledge and experience required to understand the (project) problem itself and to develop the potential innovative solution. The level of innovativeness in a project reflects the level of uncertainty involved, which indicates that different new service development process, different levels of competence from project participants, different innovation process management methods, and different co-creation intensity are required.

## **5 The Advertising Industry**

### **5.1 Introduction**

This chapter<sup>5</sup> is about the discussion of the advertising industry. Section 5.2 introduces the types of advertising agencies. Section 5.3 articulates the essence of advertising. Following on the understanding of the nature of advertising service, section 5.4 discusses creativity in advertising. Section 5.5 briefly reviews the main development stages in advertising. Section 5.6 points out the possible key participants in projects. Section 5.7 briefly discusses the innovation in advertising. Section 5.8 introduces the current trend in the advertising industry. Section 5.9 is the conclusion of this chapter.

### **5.2 The types of advertising agencies**

The advertising industry is a very special industry. It possesses the characteristics of both KIBS and the creative industries and acts as the intermediaries between its clients and its end-users (audiences). In the advertising industry, there are two types of advertising agencies. One is organised as network and formed as big advertising groups, such as WPP; the other is organised as specialist and works independently, such as Mother (Powell et al., 2013). Therefore, this thesis will interview both types of companies to check whether professionals' perspectives in different companies differ from each other.

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<sup>5</sup> Part of this section draws upon the reviews and ideas on the author's MPhil thesis.



**Table 5.1 The advantages and disadvantages of two different types of advertising agencies**

	Advantages	Disadvantages
Working with a single network (The top 5 advertising agency networks: WPP, Omnicom, Publicis, Interpublic, Dentsu)	Having the benefit of easier managing, planning and integrating every task to facilitate overall synergy, especially when operating a global campaign;	When comparing with employing specialist agencies, working with a single network can be expensive as you need to pay for a major brand name;
	Clients can save time in terms of hiring and liaising with individual agencies as the network provides an administrative hub.	Clients may have the feeling of losing control. Smaller clients do not have advantages and are usually given less time.
	Highly experienced	May be creatively less exciting
Working with specialist agencies (Example: Mother)	Providing expertise in specialised areas	Clients need to coordinate the involved different parties and manage the overall campaign.
	Clients need to manage all parts involved, so they can have greater control of their advertising campaign.	As clients need to communicate and coordinate with different involved parts, it is time consuming.
	Clients can pick and select the best agency from every discipline. This tends to be more cost-effective.	The choice that clients make in every single specialist tends to affect the whole campaign.

Source: Adapted from (Powell et al., 2013)

### 5.3 The essence of advertising services

In terms of the definition of advertising, Wells et al. (2000) define it as “*paid nonpersonal communication from an identified sponsor using mass media to persuade or influence an audience*”. Advertising messages are viewed as potential communication exchanges occurring between consumers and advertisers (Ducoffe,

1995; Ducoffe and Curlo, 2000; Smith and Yang, 2004). Advertising services are a package of activities offered to other companies and concerned with the planning, creation, delivery of advertising (Halinen, 1997). The purpose that the client company uses advertising services is to improve its performance and wellbeing (Wilson, 1972). The client company expects the advertising to affect their consumer's attitudes, intentions and behaviour, and then in a further step, increase its sales and make contributions to its growth and development (Halinen, 1997).

Advertising services are classified as a typical type of professional business services (Gummesson, 1978; Halinen, 1997) or knowledge-intensive business service (Miles et al., 1995). Advertising services are characterised in five aspects (Halinen, 1997), including

- intangibility;
- people intensity;
- the interactive nature of service processes;
- customised character;
- ambiguity inherent in the service exchange.

In advertising services, ambiguity is an inherent part and cannot be clarified through gathering more information and facts (Alvesson, 1993). In producing advertising, the client participation is necessary, but the degree of client participation is associated with the service customisation or the level of standardisation (Halinen, 1997). When buying advertising services, what the client company purchases is the knowledge and creativity which are embodied in individuals (Halinen, 1997). Creativity acts as the heart and soul of advertising services and plays a crucial role in business relationship development (Halinen, 1997).

## **5.4 Creativity**

Amabile (1988) defines creativity as *“the production of novel and useful ideas by an individual or small group individuals working together”* and organisational innovation as *“the successful implementation of creative ideas within an organisation”*. Creative ideas are the basic elements or the prerequisite of innovation (Amabile, 1988). Here, the idea can be anything, such as the ideas for new services, products, processes,

organisation procedures or policies within an organisation (Amabile, 1988). Amabile (1988) points out that there are many different definitions of innovation. Among these different definitions, some of them are quite similar to the definition of creativity, which means that the focus of such definition is on creative ideas instead of implementation. Regarding the other definitions, their focus is on the development and implementation of new ideas. For instance, Van de Ven (1986) stated innovation as

*“the development and implementation of new ideas by people who over time engage in transactions with others with an institutional order”. (p. 590)*

According to the perspective of Kanter (1983), innovation is

*“the process of bringing any new, problem solving idea into use.....innovation is the generation, acceptance, and implementation of new ideas, processes, products, or service.” (p. 20)*

From the definition of Van de Ven (1986), there are four basic factors, which are new ideas, people, transactions, and institutional context. From managerial perspectives, understanding the factors that enhance and restrain the development of innovation is the approach to understanding the process of innovation (Van de Ven, 1986). However, Van de Ven (1986) contends that the attention of most organisations and their employees is paid to their current projects rather than developing new ideas, which is detrimental to the company innovation development.

Based on the discussion of the definition of innovation, we can see creativity as the prerequisite or the first step of innovation. Creativity cannot equal to innovation and is just one aspect of innovation. The organisation needs to have ideas at first, and then develop and implement them into innovations (Amabile, 1988). In terms of how to judge innovation, Van de Ven (1986) argues that the importance is the perception of the people involved, which means that as long as the individuals involved perceive the ideas as new, it can be treated as an “innovation”, even though the idea looks like an “imitation” of something. In terms of whether an advertisement can be regarded as an innovation or not, what matters is whether it is new to clients or new to the targeted audiences or new to the agency. Therefore, as long as it is new to clients or new to the advertising agency or new to the targeted audiences, it can be viewed as an innovation. The difference is the degree of innovation. Therefore, involving business customers in

the idea generation and idea selection processes can help service suppliers understand what is new to their clients.

#### **5.4.1 Creativity dimensions in advertising**

Creativity is regarded as one of the paramount determinants in determining advertising effectiveness and success (Smith et al., 2007; Smith and Yang, 2004). In light of prior literature about advertising creativity, Smith and Yang (2004) claim that there are two significant determinants of creativity: divergence and relevance. Divergence means that the advertisement should include some unique, new, unusual, novel, or original elements; relevance refers to that some elements of the brand in the advertisement are at least useful, valuable, or meaningful to the targeted audiences (Smith et al., 2007; Smith and Yang, 2004). This is in line with the argument of El-Murad and West (2004) who point out that advertising ideas should be unique, new and relevant to the product or the service and to the targeted consumers. Wells et al. (2000) also point out that a creative concept in advertising has to have two characteristics: originality and strategy. Originality represents that the idea should be different, novel and unexpected, while strategy means that the idea should be right for the product and target consumers (Wells et al., 2000). Similarly, West et al. (2008) claim that by academics, creativity involves two features: novelty, newness, or originality, and appropriateness. Ang and Low (2000) identify the features of advertising creativity as meaningfulness, novelty and emotional content; this adds the emotional content dimension when comparing with the definition of Smith and Yang (2004). In Ang and Low's definition, the importance of emotional content is highlighted. Here, meaningfulness refers to the relevance to the commercial message that the client wants to deliver to audiences; novelty is related to the differences and unexpectedness that an advertisement has when compared with other normal advertisements; emotional content concerns the feelings deriving from an advertisement. Furthermore, Smith et al. (2007) conclude that the determinants of advertising creativity are associated with originality, flexibility, synthesis, elaboration, and artistic value. These different illustrations of advertising creativity highlight the importance of the newness, relevance and emotional effect of advertising content, which suggests the important relationship between content innovation and advertising creativity.

However, what is content? Many people argue that content is a broad and ambiguous term, which is difficult to define. Based on the 40 responses of the investigation conducted by Odden (2013) on social media, content can be defined as information and experience with the purpose for an end-user or audience. Yet, some people have different opinions of this definition. For example, in the Oxford English Dictionary, content is defined as “*information made available by a website or other electronic medium*”<sup>6</sup>. Thus, the debate of content is continuing.

Another important element in advertising creativity is empathy, which represents a keen awareness of advertising audience (Wells et al., 2000). Therefore, the creativity in advertising needs to aware how audiences think and feel, what they value as important, and what attracts their attention (Wells et al., 2000). Similarly, Smith et al. (2007) argue that when developing creativity in advertising, one important issue needing to consider is how consumers or the targeted audiences judge the creativity (Smith et al., 2007). Thus, agencies and their clients also need to take consumers’ perception into consideration when developing creative advertisements, rather than only focusing on their interest (Smith et al., 2007). Although there is a general unanimity of the importance of creativity in advertising, sometimes, it is challenging to measure and assess it.

According to the authoritative practitioner-James Webb Young<sup>7</sup>, an advertising idea is “*a new combinations of thoughts*” which originates from put “*two previously unrelated concepts together*” (Wells et al., 2000). Such understanding of how to develop creative advertising ideas looks similar to the process of developing ‘*recombinant innovation*’ proposed by Andrew Hargadon (Tidd et al., 1997) and the argument of Schumpeter (1939).

In terms of how to develop advertising creativity, Wells et al. (2000) point out two dimensions: the message (creative) strategy and its execution. Here, creative strategy refers to “*what the advertisement says*” and the execution refers to “*how it is said*” (Wells et al., 2000). In fact, here, we can understand creative strategy as the advertising idea, execution as the implementation of the idea. Effective advertising is based on

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<sup>6</sup> <https://en.oxforddictionaries.com/definition/content>

<sup>7</sup> He is an American advertising executive and is the first chairman of the Advertising Council.

strategy, thus, understanding how creative idea reflects the creative/message strategy is significant (Wells et al., 2000).

#### **5.4.2 Advertising creativity**

Although many advertising professionals have expressed that there is no equation of how to generate creative and innovative ideas, there are some useful arguments helping us understand advertising creativity. For instance, in line with the approach of Leo Burnett in which advertising creativity is defined as *“the art of establishing new and meaningful relationships between previously unrelated things in a manner that is relevant, believable, and in good taste, but which somehow presents the product in a fresh new light”* (El-Murad and West, 2004), Young (2012) claims that there are two general principles of generating creative ideas. The first principle is that the development of creative ideas can be regarded as a new combination of old elements. The second principle concerns that individuals’ capacity of bringing old elements into new combinations is largely dependent on their ability to see relationships between the old elements. Therefore, the importance is whether advertising professionals have the ability of relating different elements together and finding out their relationships between unrelated innovation elements. Young (2012) claims that such ability can be cultivated and when generating creative ideas, the mind follows a method which is constituted by five ordered steps:

- The first step is to gather the raw material of the advertising project: both specific and general materials.
- The second step is about working over these materials in your mind.
- The third step is the incubating stage, which means that professionals need to synthesise the materials together.
- The fourth step is the actual birth of the creative idea.
- The fifth step concerns how to develop and shape the idea to practical usefulness.

Although the above steps could not be the equation of generating creative ideas, from such a process, we can find the importance of the first step as it is the guiding point of other steps. Since creating innovative ideas is about making new combinations of elements, what elements that you have seem to play the determinant role in deciding what types of combinations that professionals can make. Apart from the importance of

raw material in creating innovative ideas, what knowledge the individual and organisation possess also plays a crucial role. Hence, what general material and specific knowledge that organisations have and what specific information that they can collect play a determining role in innovation. In a further step, this indicates firms' knowledge management mechanisms and innovation activities of acquiring knowledge are crucial for creating innovative solutions.

#### **5.4.3 Components of individual creativity**

Regarding the basic factors necessary for individual creativity, Amabile (1988) proposed three major components: domain-relevant skills, creativity-relevant skills, and intrinsic task motivation. Domain-relevant skills refer to factual knowledge, technical skills, and special talents in the domain which is being discussed. Domain-relevant skills are the raw material for creative productivity and are dependent on individuals' cognitive, perceptual, and motor abilities as well as formal and informal education (Amabile, 1988). Creativity-relevant skills include the cognitive style with the preference of taking new viewpoints on problems, an application of heuristics to explore new cognitive pathways, and a working style which is beneficial to persistent and energetic pursuit of the work (Amabile, 1988). There are two basic elements of intrinsic task motivation: one is the baseline attitude of individuals toward the task, and the other is the individual's perceptions of the reason to take the task in a given instance. In line with the motivation argument of Amabile (1988), Van de Ven (1986) contends that the degree of an organisation's success is positively related to the difficulties of it to make its employees to focus on new ideas, needs and opportunities.

#### **5.5 The development stages in advertising projects**

In advertising firms, having a thoroughly understanding of their innovative process is beneficial for them to produce more innovative advertisements and enhance the innovative advertisements' effectiveness (Hackley and Kover, 2007). In most other KIBS, the project solution is primarily implemented by the client, yet in advertising services, advertising companies need to take the responsibility of creative idea implementation (Jefkins and Yadin, 2000). In accordance with the view of Jefkins and Yadin (2000), the tasks of advertising firms are to plan, create and execute the activities related to advertising solutions for their clients.

The core of an advertising firm is to develop creative advertisements (Burgoyne, 2013). In 2013, Burgoyne proposed a framework to analyse the stages of advertising projects. The framework begins with the assessment of the project: whether the company is capable of solving the project problem. Thus, the agency needs to assess what types of resources and capabilities they have. In fact, in the advertising industry, pitching (several advertising firms compete for one project) is a common way to gain a new advertising project (Pratt, 2006). Pitching represents the chance of letting clients understand what types of capabilities the advertising firm has and then build trust with clients. Commonly, the determinant elements in selecting advertising firms in a pitching are the campaign strategy and presentation mode proposed by advertising firms rather than the cost (Pratt, 2006). Additionally, many brands tend to change their advertising firms frequently, approximately every twenty months, to facilitate the pitch cycle (Pratt, 2006). This is partly because in a long-term relationship, the interaction parties have a high level of experience with each other, which tends to lead clients to believe that their advertising providers “*have lost their ability to be objective*” (p.323) (Moorman et al., 1992). In other words, the solutions and information provided by their researchers are not as creative as that they provided before. They also suggest that in long-term relationships, clients tend to have higher expectation for their service providers. In consistent with the findings of Moorman et al. (1992), Doyle et al. (1980) claim that the relationship breakup between advertising agencies and their clients often are caused by clients’ perception of advertising agencies’ reducing creative ability, which are that in long-term relationships, advertising agencies are “*going stale*”. Clients who intend to change their agencies are because they feel that their agencies do not put enough energy in generating creative idea (Dowling, 1994; Grayson and Ambler, 1999). Therefore, developing creative advertising solutions is considerably important to advertising firms; otherwise, advertising firms will lose their clients. On the other hand, by working with different agencies or clients, advertising firms and clients can be able to accumulate more new knowledge and resources from different partners, and in turn, develop more innovative ideas. Regarding the framework developed by Burgoyne (2013), the steps are as follows:



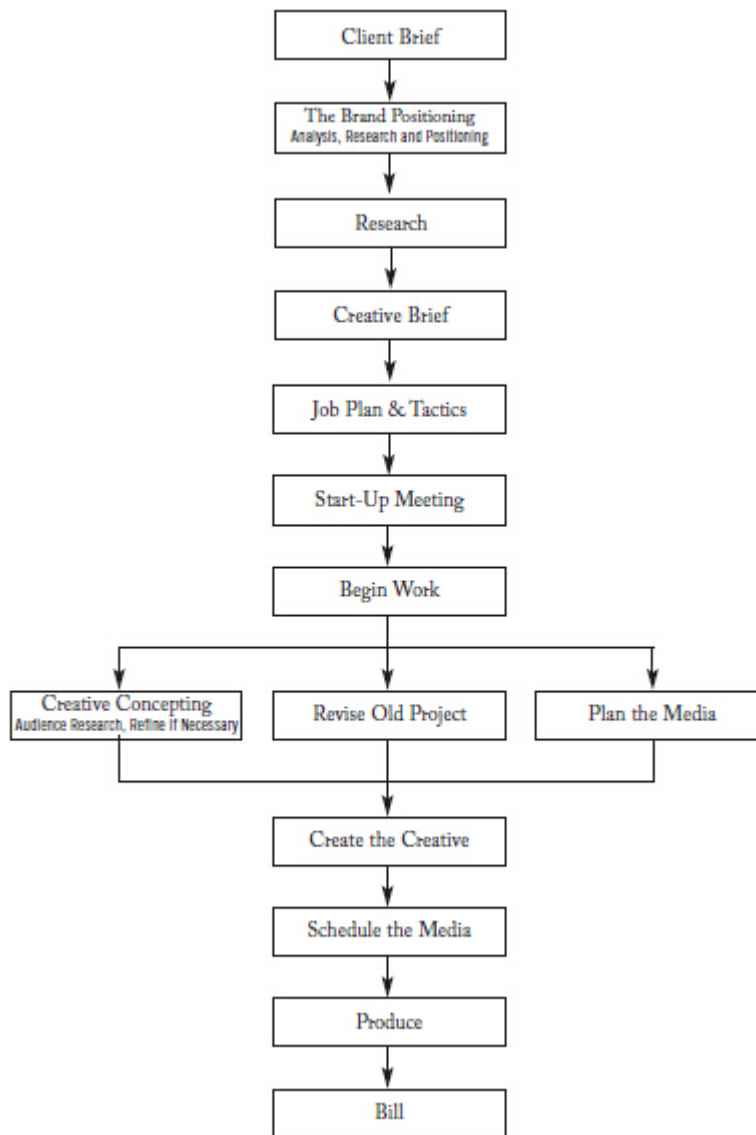
**Table 5.2 The stages of developing advertising projects**

Steps	Explanation
Step 1	Define the schedule and estimate cost.
Step 2	Develop creative brief: This is to brief the things that the advertising firm plan to do, the challenges may arise from the process, and to brief the changes that the firm needs to make about the budget and the time.
Step 3	This is the formal start of the project: the client needs to authorise the estimate and pre-approve media plan.
Step 4	This step concerns kick-off meeting, which is the first formal meeting between the team members from the advertising firm side and the client side. During the meeting, they need to classify the role of each member and decide whether they need to change the media plan, the project budget and the project time.
Step 5	This step is the creative process which mainly involves idea generation and selection stages.
Step 6	This is the production process for developing the creative ideas generated above.
Step 7	The last step concerns the quality control and the launch of the advertisement.

Source: Burgoyne (2009)

Although there is a sequence between steps, this does not mean that these steps are always structured in a linear process. Similar to the framework proposed by Burgoyne, Pratt (2006) claims that the formal stages of advertising projects can be summarised to 6 steps: the pitch, signing contract, generating the idea, decisions on content and campaign, budgets, and developing the advertisement. Additionally, there is another model (Figure 5.1) illustrating how to develop advertising projects. It was developed by Ed Burgoyne in 2009 and was slightly different from the one proposed in 2013.

**Figure 5.1 The stages of developing advertising project**



Source: Burgoyne (2009)

### **5.5.1 The transitions in the process of developing advertisements**

Apart from the above frameworks of developing advertising projects, there are some other scholars attempting to unravel the new advertisement process. For example, according to the view of Nov and Jones (2003), the new advertisement process can be divided into three main transformations, including the transformation of the client's brief into insights and strategy by planners, the transformation of the insights and strategy into creative ideas by creative professionals, and the transformation of the creative ideas into advertisements to be published in media channels by a graphic or a

TV production company or some other relevant companies (Nov and Jones, 2003). From these three transformations, we can see the important transition points in the development process and the important employees in every transformation phase.

### **5.6 The main participants involved in projects**

In advertising companies, the key project members usually include account planners, creative professionals, media specialists, production people, and the employees and managers in some key departments; the project members are all treated as the filters of developing creative advertising (Stuhlfaut, 2011). Apart from them, the client and market conditions are also the filters of developing innovative advertising (Stuhlfaut, 2011). In advertising companies, creative directors serve as the supervisor of the creative process and have substantial influence on the creativity direction (Stuhlfaut, 2011). Apart from the project members, another important actor in the development process is the customer. In fact, this is in line with the argument of John and Storey (1998) who argue that in new service development, there are three different groups of individuals playing a critical role in the project and must be managed: customers, the customer-contact staff, and the development staff. In terms of the development staff, whether they are in developing products or services, there is overwhelming evidence supporting the usefulness of cross-functional teams (Alam and Perry, 2002; Barczak et al., 2006; Cooper et al., 2002; de Brentani, 1991; Kahn et al., 2006; Zomerdijk and Voss, 2011). As most KIBS firms are project-based organisations, cross-functional teams are their core form to conduct the work.

### **5.7 Innovation in advertising**

As the business environment is becoming increasingly fierce and competitive, innovation is a way used by advertising companies to differentiate their advertising products (Miles and Green, 2008). Although the research concerned with innovation in advertising is relatively rare (Miles and Green, 2008), many researchers have studied creativity in advertising (Sasser and Koslow, 2008). As discussed above, creativity is a necessary component of innovation, which indicates that the research concerned with creativity can help understand the innovation in advertising. In fact, the report produced by Miles and Green (2008) facilitates researchers' attention of studying the innovation in advertising. Indeed, innovation in the creative industries tends to have '*artistic*',

*'aesthetic'*, or *'stylistic'* elements (Chaptain et al., 2010). Stoneman (2009) claims that creative industries have very high rates of soft innovation. *'Soft innovation'* refers to "*a concept that reflects changes of an aesthetic nature*".

Due to the trend of digitalisation, innovation in the advertising industry is becoming increasingly complicated (Mallia and Windels, 2011). In the advertising industry, the prerequisite of innovation is related to the understanding of the behaviour of brands and targeted advertising audiences (Mallia and Windels, 2011). Advertising firms not only need to become innovative in the services provided to clients, but also in internal processes (Poveda-Bautista et al., 2013). New technologies are acting as a facilitator in encouraging advertising companies' clients to participate actively in service innovation and are becoming a component of developing new advertising services (Poveda-Bautista et al., 2013). This indicates that technologies are playing a significant role in advertising firms.

The U.K.'s Institute of Practitioners (IPA) in Advertising carried out some research to identify the relationship between creativity and effectiveness (Hall, 2010) and substantiated that the advertisements receiving creative awards in some famous advertising competitions are eleven times more effective than the advertisements do not receive creative awards (Hall, 2010). El-Murad and West (2004) also note that creativity plays an essential role in effectiveness. Therefore, when selecting advertising firms, one of the significant determinants affecting brands' choice is the ranking of innovativeness of advertising companies in the world famous innovation and creativity awards (e.g. Cannes Lions, the One Show, Campaign etc.) (Kuebler and Proppe, 2012). In a sense, these awards act as the screening system in helping brands identify the most suitable firms for them. This indicates that producing more innovative advertisements is a feasible way for advertising companies to build their creativity reputation. Also, in the advertising industry, attending the 'creativity' or 'innovation' competitions can help advertising companies nurture and improve their creative teams' innovation taste (Pratt, 2006).

Zollo and Winter (2002) claim that the new service capability, creative capability and the use of new technology are the most important indicators in measuring advertising companies' competitiveness. There is a close relationship between advertising companies' competitiveness and their innovation capability (Zollo and Winter, 2002). Here, new

services capability concerns two types of innovation: innovation in developing new advertising ideas and innovation in changing the procedures of developing new services. The use of new technology signifies the significance of active participation from clients in service innovation processes and the significance of integrating new technologies in developing advertising services. However, innovation in advertising is not just concerned with the utilisation of the latest new technology (Wagler, 2013); it is related to the engagement process of brands, people and organisations (Sheehan and Morrison, 2009), indicating the importance of engagement with people (e.g. clients and consumers) in the innovation process. Creativity capability acts as the core of developing innovative advertising services. Therefore, advertising firms need to emphasise the importance of the use of new technologies, creativity and innovation in their organisations, and active customers' involvement in the innovation process.

## **5.8 The current trend of the advertising industry**

According to the WARC database<sup>8</sup>, the Internet advertising and mobile advertising are playing an increasing important role in the current UK advertising industry. The UK Internet advertising expenditure has surpassed the TV advertising expenditure since 2011 and is dominating the UK advertising industry (Hobbs, 2017). Moreover, the UK internet advertising is playing a world leading role (McDonald, 2016). In 2015, the UK were the third largest market in terms of the Internet advertising expenditure and mobile advertising expenditure, ranking behind the United States and China (McDonald, 2016). With the growth of Internet advertising, the advertising spending in the print sector is declining (McDonald, 2016). However, this does not mean that the other types of advertising are unimportant. For example, TV advertising spending still occupies a big share in the UK advertising market (WARC, 2017) and TV still dominates the world advertising market and remains the biggest advertising medium (McDonald, 2016). When comparing with online advertising, TV advertising is better in leaving a deep impression on consumers, producing easily absorptive content experiences, and making consumers feel easy to have resonance with the advertising brand (Steele et al., 2013). Moreover, most consumers still give more trust to the television information despite the accelerating proliferation of new advertising delivery channels (Danaher and Rossiter,

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<sup>8</sup> <https://www.warc.com/Pages/Data/adspend-database/table-builder.aspx>

2011). However, after brands successfully build some connections with consumers, online advertising tends to help brands produce stronger brand connections (Steele et al., 2013). This implies the function differences between TV advertising and online advertising. Consequently, advertising firms can utilise television and online media together to deliver the brand message in a more effective way. Therefore, how to combine the TV and digital media effectively together plays a critical role in influencing the advertising effectiveness (Clift and Carruthers, 2013). Additionally, in advertising, digital platforms can help organisations save money with the prerequisite of using them in an innovative way with proper content (Whiteside and Tiltman, 2013). Under the trend of digitalisation, digital platforms are being utilised as the core brand-building programmes by many companies to strengthen their brands' relationship with consumers, for instance Procter & Gamble, Unilever and Nestle (Martin and Todorov, 2010; Tiltman, 2014). Therefore, in the contemporary advertising industry, how advertising companies interact with consumers and their business clients through digital platforms and how they manage the relationships with them are becoming important in developing their businesses.

On one hand, the digitalisation trend is bringing more opportunities for companies to interact with consumers; on the other hand, it is becoming increasingly challenging for them to control advertising content and media (Sharp and Wind, 2009; Steele et al., 2013). In the contemporary advertising industry, the competition is becoming increasingly fierce and the brands have much more media options when comparing with 30 years ago (Pawar, 2017). With the aim of surviving in the digital environment, advertising firms need to make changes to embrace the digital media trend and to find new ways to develop new businesses. Pawar (2017) suggests that advertising firms need to focus more attention on how to serve for small and medium size enterprises and personal brands to enlarge their business markets. Therefore, advertising firms need to make changes to enlarge the range of their business customers, which implies that advertising firms may need to develop a more streamlined innovation process to accelerate the speed of marketing their creative ideas. Digital media is reshaping the advertising industry and the advertising model and is playing an increasing important role in consumer's life. Hipperson (2012) identifies 8 important elements in the current advertising agency model: content, co-creation, project management, lifetime experience, the capability of incorporating quantitative with qualitative when analysing

real time data, integrated planning ability, real-time insight, and optimise online media buying.

The evolution of digital media is changing the roles of brands and consumers played in the process of creating innovative advertisements (Deloitte, 2012). Internet advertising is usually more interactive when comparing with traditional advertising. Traditionally, advertising companies and consumers had the “*show-and-tell*” relationship, yet currently, such type of relationship is being replaced by a much more close relationship between them (Deuze, 2007). With the emergence of an increasing number of new media channels, audiences are having far more choices in selecting the media they like and the “*one way show-and-tell advertising*” is becoming unsuitable and ineffective (Auletta, 2005). Media are becoming more responsive and interactive (Deuze, 2007). Meanwhile, advertising creative professionals should attempt to create participatory experience for consumers rather than try to control the storytelling through the media (Deuze, 2007). Also, consumers are becoming a new source of innovation in the advertising industry. Crowdsourcing is being adopted by some advertising firms and brands to develop innovative advertising ideas (Pawar, 2017). For example, ‘Crash the Super Bowl’ is a competition launched for Doritos to co-develop advertisements with consumers (WARC, 2012). Yet, there are many issues involved in how to operate the crowdsourcing process more efficiently and effectively.

The above description shows that the trend of digitalisation is changing the advertising industry to a large extent. First, digital media channels are playing an increasing important role in consumers’ life. Second, advertising firms are pushing to master new skills and change their existing mechanisms to integrate digital media channels with other channels. Third, the roles of brands, advertising professionals, and consumers playing in developing creative advertisements are changing. Fourth, as the proliferation of new media channels, brands are changing their advertising strategies and their advertising budget allocated to different media channels. Last, advertising firms are creating new types of services to meet the demands of their clients. These changes indicate that advertising companies need to help their employees master new required skills. In the digital era, human capital and skill upgrading play paramount roles in service sectors’ innovation processes (OECD, 2005b).

## **5.9 Conclusion**

This chapter has helped us have a preliminary understanding of advertising services, the innovation in advertising services and the current trend of the advertising industry. The advertising service is a special type of KIBS. Advertising firms' customers are different from the end users of their services. The purpose of advertising services is to deliver the client message to the end users of the advertised product/service and to influence consumers' attitudes and behaviour. As a type of creative service, creativity is a necessary element in advertising. Owing to the growing trend of digitalisation, advertising companies are making changes to embrace it. The increasing importance of co-creation and customer and consumer engagement is one of the most significant changes occurring in the advertising industry.



## 6 Methodology

### 6.1 Introduction

This chapter<sup>9</sup> articulates the research methodology utilised in this research. First, section 6.2 proposes a conceptual framework which links the research question, literature, and research objectives together. Section 6.3 restates the research questions and articulates these questions into sub-questions as well as develops an analytical framework around research questions. Section 6.4 elaborates the research philosophy and the rationale of choosing multiple case studies as the research methodology. Semi-structured interviews are the primary data collection method (Section 6.5). Section 6.6 discusses the data analysis method and process. Section 6.7 reviews the issues of the ethical considerations and validity. Section 6.8 summarises this chapter.

### 6.2 Conceptual framework

According to the perspective of Miles and Huberman (1994), a conceptual framework

*“explains either graphically, or in narrative form, the main things to be studied – the key factors, concepts or variables – and the presumed relationship among them. Frameworks can be rudimentary or elaborate, theory driven or commonsensical, descriptive or causal.” (P. 18)*

Whereby the construction of conceptual framework, researchers could feel clearer in condensing and ordering information rather than overloading by too much information (Miles and Huberman, 1994). The conceptual framework can help researchers identify which types of information need to be codified and what matters more. Some researchers even treat the conceptual framework as a research tool as it can help researchers keep the research on track (Smyth, 2004). The conceptual framework makes the literature and research goals as well as research questions link together, acts as the guidance of research design and discussions (Smyth, 2004). Therefore, having a conceptual framework is essential to conduct this research. Based on the research objectives, research questions, and literature reviews in preceding chapters, this section develops a conceptual framework (Figure, 6.1) to illustrate the main findings to be studied.

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<sup>9</sup> Part of this section draws upon the reviews and ideas on the author's MPhil thesis.

Through the literature review in Chapters 2 & 3, we have a general understanding of service innovation, service innovation processes, and the new service development stages. This study accepts the multi-dimensional perspective to study the innovation dimensions in advertising. The literature suggests that the service innovation process is an interactive process, shaped by KIBS firms, clients, end-users, and external collaboration organisations. In the process, one of the most important interactions is between the KIBS firms and their clients. Client involvement plays a critical role in the process and their involvement is unavoidable. KIBS firms and clients are the core actors shaping the innovation process and the effects of their interaction influence the final project performance directly. Through their interaction, they are able to co-create with each other to create better and more innovative solutions and to exchange knowledge and learn from each other. Therefore, the innovation process acts as the core element to be studied in this research. Based upon the innovation process generated, we explore how to conduct co-creation and how to exchange and transfer knowledge between KIBS firms and clients.

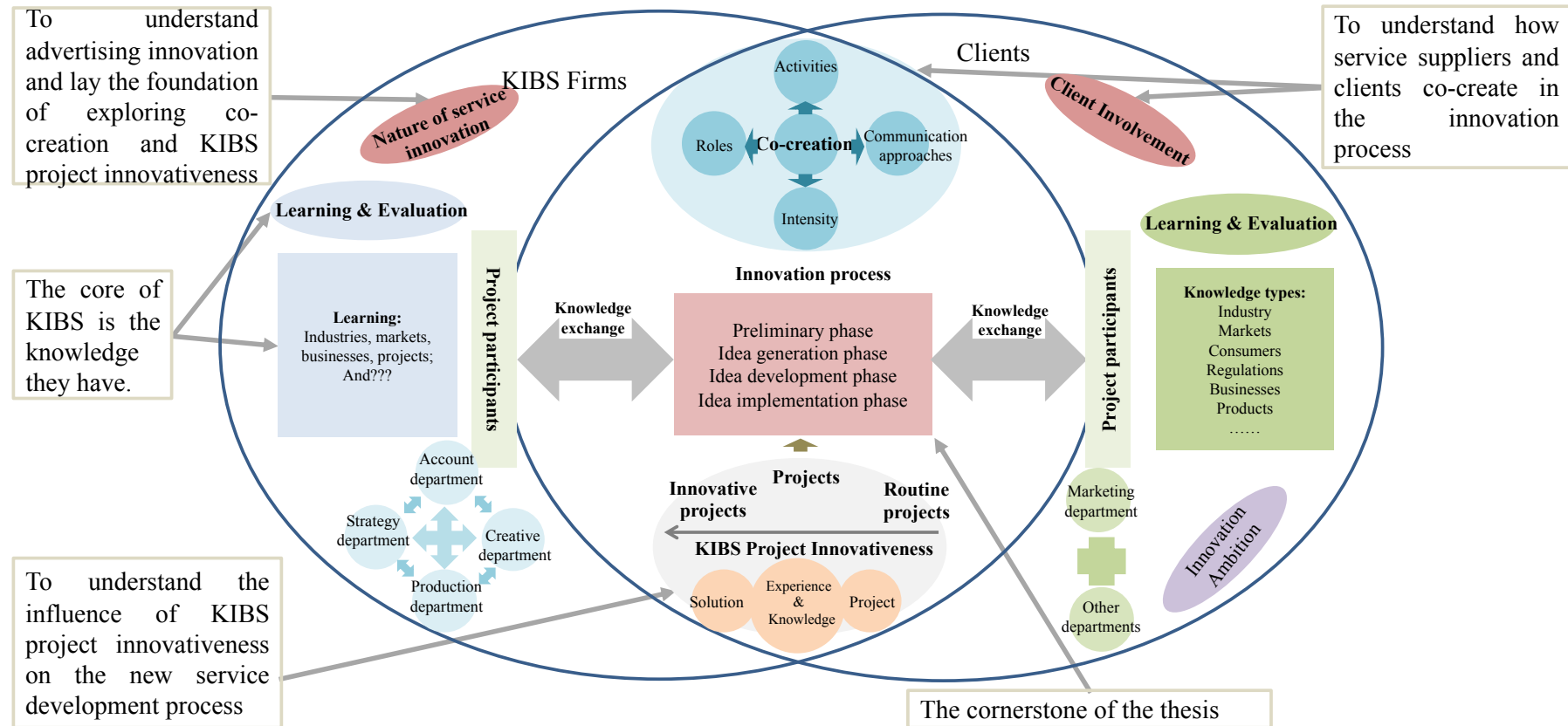
Chapter 3 has reviewed a range of literature concerning co-creation, and then we find that most studies consider the co-creation the same as co-production. This study argues that they are different and makes an attempt to differentiate them by reconceptualising co-creation and co-production. Co-creation is defined as the various degrees of active involvement of customers in the upstream activities in the innovation process, such as creation/ideation, design, elaboration, production, and the like in the innovation process, to create something new together. Co-production also emphasises the importance of customer involvement, but the nature of their involvement is different from the involvement for co-creation. The purpose of co-creation is to create something new together, while the involvement occurring in co-production is for the service or activity which has already largely designed by the supplier. Therefore, this study explores the nature and features of co-creation in the aspects of activities performed and roles played by client and communication approaches utilised to interact with clients in the innovation process.

Most KIBS firms are project-based organisations, meaning that projects are their core unit of businesses. However, each project is different, at least in some areas. How such differences influence the way that they manage the innovation process and the co-

creation between the firm and the client is under-developed. Based on this, this study investigates the influences of newness among different projects on the elements (innovation process and co-creation) reviewed in Chapter 3. This study (Chapter 4) regards KIBS project innovativeness as the novel knowledge and experience that the company is required to have to understand the problem itself and to develop the innovative solution for their client. In terms of some projects, the company may have a rich knowledge of the project and of how to develop innovative solutions for that type of project, thus such projects can be regarded as routine project for the company; while for some other projects, the company has little knowledge of the problem/project and of how to develop innovative solutions, thus such projects are the innovative project for the company, which signifies that the company needs to resolve more uncertainties and confront more risks in the process of producing the solution, which, in a further step, indicates that the resources they allocate to the project and the way they manage it are highly likely to be different. Regardless of routine projects or innovative projects, KIBS firms accumulate their knowledge from projects, which signifies the importance of learning.

Combined the discussion above, this research proposes a simplified conceptual framework (figure 6.1).

Figure 6.1 Conceptual framework



Source: Author

### 6.3 Research questions

Chapter 1 has pointed out the objectives of this study, which are related to the nature of innovation in advertising, innovation process and co-creation, and KIBS project innovativeness. Therefore, three research questions are proposed. Each main research question contains several sub-questions which guide the exploration of the main research question and how to explore the topic during interviews.

Because the core of this study is to explore the innovation in advertising and the co-creation across the innovation process, the first central research question is to explore the nature of advertising innovation and the advertising innovation dimensions to provide a general understanding of how to understand advertising innovation.

Central research question 1: What is advertising innovation and how is it developed?

- Sub-question 1.1 What are the perspectives of advertising managers toward advertising innovation?
- Sub-question 1.2<sup>10</sup> What is advertising innovation?
- Sub-question 1.3 What are the advertising innovation dimensions?
- Sub-question 1.4 How far does the den Hertog et al. (2010) service innovation model fit into the advertising industry?

As discussed in chapter 2, the service innovation dimensions model developed by den Hertog (2002) lays the foundation for a multidimensional conceptualisation of service innovation (Janssen et al., 2015). Then, the service innovation models developed by Miles and Green (2008) and den Hertog et al. (2010) further advance our understanding of adopting the multidimensional and varied nature of service innovation and help us establish a general structure of how to shape the service innovation dimensions in advertising. Therefore, the first research question is to explore the advertising innovation and advertising innovation dimensions.

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<sup>10</sup> Logically, sub-question 1.2 should be the second sub-question Yet, in practice, it should be the first sub-question due to the way to answer questions in interviews. Before we conduct interviews, we need to have a preliminary understanding of advertising innovation to know how to explain the concept to interviewees.

Central research question 2: How do advertising agencies co-create with clients in the innovation process?

- Sub-question 2.1: What is the advertising innovation process and the stages of new service development here?
- Sub-question 2.2: Where is creativity located in the innovation process?
- Sub-question 2.3: What constitutes co-creation in the innovation process?
- Sub-question 2.4: What activities do clients perform and what roles do they play in the innovation process?
- Sub-question 2.5: What approaches to interaction are used during the innovation process?
- Sub-question 2.6: What is the intensity of co-creation over the course of innovation process?

According to discussion in chapter 3, service innovation process usually includes the phases of preliminary study, idea generation, idea development, and idea implementation (Gadrey and Gallouj, 1998; Sundbo, 1997), which sheds some light on how to conceptualise the advertising innovation process. Innovation in service industries can be viewed as a process deriving from the interplay and interaction among the involved actors (Doloreux, 2004). Among these actors, the interaction with clients is the most important one. Therefore, the aim of the second central question is to understand how agencies and clients co-shape the innovation process and how agencies co-create with clients in the innovation process. Because the literature lacks a full picture of how clients get involved in the innovation process, this research focuses on participants involved in each stage (who), the activities that client perform (what they do), the roles they play (what they play), and the interaction approaches used by advertising firms (how they do) to develop a comprehensive picture of how to co-create with clients in the innovation process.

Central Research Question 3: How does KIBS project innovativeness influence the management of the innovation process and of co-creation between advertising firms and clients?

- Sub-question 3.1 What is KIBS project innovativeness? What are the perceptions of advertising managers concerning KIBS project innovativeness?

- Sub-question 3.2 How does KIBS project innovativeness influence the management of the innovation process in the features of new service development stages required, and the senior resource put into the process (e.g. the level of competence that participants have and the attention from decision makers)?
- Sub-question 3.3 How does KIBS project innovativeness influence the co-creation between agencies and clients in the features of interaction intensity, the participants involved and the decision makers from the client side involved?

Moving on from the second central question, the third central research question studies how KIBS project innovativeness influences the management of innovation process and the co-creation between KIBS firms and clients. In Chapter 4, we conceptualise the KIBS project innovativeness as the level of novel knowledge and experience that KIBS firms are required to have to understand the problem itself and the innovative solution (solution innovativeness). The knowledge and experience about the problem itself refers to the level of knowledge and experience the firm has in relation to the project industry, market, business, product or service, customer, competitors etc.; solution innovativeness refers to the novelty of the solution to the service company. In light of the view of Avlonitis (2001), the service performance is closely related to the service development process that it follows. The service development process is influenced by the expected new service innovativeness that the firm wants to reach. In addition, Besner and Hobbs (2008) also point out that the management of innovation project and routine project is different. Therefore, the challenge is how to understand the influences caused by KIBS project innovativeness on the areas of development stages (involved activities), the senior resources put into the process and the co-creation between KIBS firms and clients.

Through the above investigation, we provide a detailed picture of how the interaction between KIBS firms and clients shapes the innovation process and the influences resulting from KIBS project innovativeness on new service development.

By concluding the above delineation, the author develops an analytical framework (Table 6.1).

**Table 6.1 An analytical framework around research questions**

Research areas	Research questions	Theoretical literature	Gaps in the literature	Findings
The nature of advertising innovation	<b>1. What is advertising innovation and how is it developed?</b> 1.1 What are the perspectives of advertising managers toward advertising innovation? 1.2 What is advertising innovation? <b>1.3</b> What are the advertising innovation dimensions? <b>1.4</b> How far does the den Hertog et al. (2010) service innovation model fit into the advertising industry?	den Hertog (2000); Green et al. (2007); Miles and Green (2008), den Hertog et al. (2010); Miles et al. (1995) Miles (2016)	Understanding the nature of advertising innovation and conceptualising advertising innovation dimensions	Chapter 7
Innovation process and co-creation	<b>2. How do advertising agencies co-create with clients in the innovation process?</b> 2.1 What is the advertising innovation process and stages of new service development here? 2.2 Where is creativity located in the innovation process? 2.3 What constitutes co-creation in the innovation process? 2.4 What activities do clients perform and what roles do they play in the innovation process? 2.5 What approaches to interaction are used during the innovation process? 2.6 What is the intensity of co-creation over the course of innovation process?	Sundbo (1997); Gadrey and Gallowj (1998); Alam and Perry (2002); Bowers (1989); Burgoyne (2013); Prahalad and Ramaswamy (2004a); Payne et al. (2008); Miles (2012); Bettencourt (2002)	Conceptualising the advertising innovation process and how clients get involved in the innovation process;  How the interaction between them shapes the innovation process;	Chapter 8
Project innovative-ness	<b>3. How does KIBS project innovativeness influence the management of innovation process and the co-creation between the advertising firms and clients?</b> 3.1 What is KIBS project innovativeness? What are the perceptions of advertising managers concerning KIBS project innovativeness? 3.2 How does KIBS project innovativeness influence the management of the innovation process in the features of new service development stages required, and the senior resource put into the process? 3.3 How does KIBS project innovativeness influence the co-creation between agencies and clients in the features of interaction intensity, the participants involved and the decision makers from the client side involved?)	Gann and Salter (2000); Hobday (2000); Salter and Tether (2014); Shenhar (1998, 2001, 2004); den Hertog (2000, 2010); Avlonitis et al. (2001); Besner and Hobbs (2008)	Conceptualising KIBS project innovativeness and how it influences the management of new service development process and the co-creation between KIBS firms and clients;	Chapter 9 <sup>11</sup>

Source: Author

<sup>11</sup> Apart from the question listed in this table, this thesis also explored how KIBS firms learn from the innovation process and exchange the knowledge with their clients, yet because of the word count limitation, the finding is removed to appendix 2.



## **6.4 Research strategy**

### **6.4.1 Research philosophy**

Research philosophy refers to the beliefs and assumptions of how to develop knowledge (Saunders et al., 2016). When developing knowledge, we need to make a series of different types of assumptions (Burrell and Morgan, 2017). These assumptions encompass the epistemological assumptions (about human knowledge), ontological assumptions (about the nature of reality), and methodological assumptions (about the process of studying the research) (Saunders et al., 2016). These assumptions shape the researchers' understanding of research questions, the methods used to explore the research questions, and the way to interpret findings (Crotty, 1998).

There are two extremes of research approaches: positivism and interpretivism (Walliman, 2010). Positivism is related to the natural scientist's philosophical stance (Saunders et al., 2016) and is an approach which stresses the model of natural science to create knowledge through research (Noor, 2008). Positivist adopts that reality is independent of researchers, reflecting that researchers are neutral observers (Walliman, 2010). The role of research adopting positivism research is to discover law-like generalisations by studying an observable social reality (Saunders et al., 2016). Generally, quantitative research is applied when a study adopts positivism as the guiding research philosophy (Saunders, 2016).

By contrast, interpretivism views the world in a subjectivist perspective and emphasises the human differences in studying reality (Saunders et al., 2016). Unlike positivism, interpretivism maintains that researchers are part of the research process (Walliman, 2010) and their personal experiences, values and beliefs play a crucial role in the research process (Saunders et al., 2016). Reality is socially constructed in the view of interpretivist researchers (Saunders et al., 2016). The aim of interpretivist research is to reveal rich and new interpretations of the world made by different humans (Walliman, 2010). Commonly, qualitative research is utilised when a study adopts interpretivism as the guiding research philosophy (Saunders, 2016).

Unlike the above two extreme research approaches, critical realism is a philosophy which can be regarded as reconciliatory approach (Walliman, 2010). Critical realists recognise the existence of a structured and layered order in social events, but also point

out that such order cannot be directly identified through merely our observation and knowledge of a pattern of events (Williams, 2010). In order to discover the underlying order, the process of interpretation while doing theoretical and practical work is necessary. Although critical realism acknowledges the existence of reality which is independent of human thoughts, beliefs or knowledge (Saunders et al., 2011) when compared to positivism, it rejects a direct relationship between the concepts developed and the observable phenomena (Williman, 2010). It argues that concepts and theories are developed on the observable effects and interpreted in a way that can be understood (Williman, 2010). As argued by Sayer (1992), the creation of knowledge does not take place in a vacuum, but involves social practices. With the growing understanding of the social event, the interpretation can be revised. Attention to the underlying structures of social events differentiates critical realism from interpretivism, which denies the existence of such underlying structures (Williman, 2010).

When comparing with positivism and interpretivism, critical realism is suitable to a wider range of research methods (Sayer, 2000). Yet, the selection of particular research methods should be based on the nature of the research object and the purpose of research (Sayer, 2000). The objects in social science, like institutions, economic activities, discourses, are shaped by multiple components and forces in the social system. Unlike the research objects in natural science, researchers cannot separate the research objects from these components and examine them by controlling some conditions (Sayer, 2000). There are two types of research design which can be applied to study such objects: intensive and extensive research designs (Sayer, 2000). Generally, intensive research design begins with individuals to identify the main causal relationships in which these individuals get involved and study the qualitative nature of these people (Sayer, 2000). Extensive research design, in contrast, reveals how extensive a pattern and certain phenomena are in a population (Sayer, 2000). These two research designs have their own advantages and disadvantages and should be applied based on the purpose of the research.

Considering the nature of this study, critical realism is adopted to guide the research. Based on the critical realism, how KIBS firms innovate and co-create with their clients are existing realities independent of observers, such as the researcher. Such reality is shaped and constructed by the related components and forces in the social system.

#### **6.4.2 Research approach**

Research approaches refer to the research plans and procedures, including the steps from broad research assumptions to detailed methods of collecting and analysing data (Creswell, 2013). The research philosophy discussed above should inform the decision of research approaches. Also, this decision is associated with the nature of research problems, the personal experiences of researchers and the audiences of the study (Creswell, 2013).

There are three different research approaches widely used in social science, including quantitative, qualitative, and mixed methods (Creswell, 2013; Creswell et al., 2003). Qualitative research refers to the approach which is to explore and understand the individuals' meanings and relationships between them by utilising a series of data collection methods to collect data from participants' setting and analyse the data inductively to reach a general theme, and then researchers interpret the meanings of the data and develop a conceptual framework or make theoretical contributions (Creswell, 2013; Saunders et al., 2016). The final written format often follows a flexible structure (Creswell, 2013). Quantitative research is about an approach utilised to test objective theories by studying relationships between variables (Creswell, 2013; Saunders et al., 2016). These variables are generally measured numerically and can be analysed by a series of statistical techniques (Creswell, 2013, Saunders et al., 2016). The final written format by using quantitative approach should follow certain structures which encompass the sections of introduction, literature and theory, methodology, findings, and discussion (Creswell, 2013). Mixed methods research, as suggested by the name, refers to an approach utilising both qualitative and quantitative data collection methods to study the research objects (Saunders et al., 2016). The reason of using mixed methods is often because by combining the qualitative and quantitative data, we can achieve a more comprehensive understanding of the research problem (Creswell, 2013).

Since the research about innovation, innovation process, and project innovativeness in the advertising industry is very rare, this study uses qualitative research approach to conduct the research, which is by nature exploratory research. Exploratory research is undertaken in a prearranged, systematic, purposive way to maximise our discovery and understanding of an area of social life (Stebbins, 2001). In qualitative research approach, researchers establish the interpretation of their research by listening to the perspectives

of the research participants (Creswell, 2013). Therefore, qualitative approach is adopted as the research method to understand phenomena and develop theories.

#### **6.4.3 Multiple case studies**

The case study methodology, defined as “*an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context*” (Yin, 2009, p.18), is adopted to conduct the empirical research. Case study is an appropriate approach to explore micro level activities and exchange processes and is designed for exploratory investigation where the phenomenon is not well understood (Meredith, 1998). A particular strength of utilising case study method is concerned with the opportunity to explore the not well understood phenomenon in real-life context (Yin, 2009). Case study is also suitable and useful to examine the causality among processes and concepts (Easterby-Smith et al., 2015). This research focuses on the exploration of the innovation process and the concepts of co-creation, KIBS project innovativeness, learning, and knowledge transferring. Therefore, this approach is suitable for studying the exploratory nature of the research.

After deciding to use case study research method, the next step is about how to design case studies: using single- or multiple-case designs (Yin, 2009). Compared with single-case design, the evidence from multiple case studies is often treated as more compelling and the research is considered as being more robust and generates more generalisable theories (Herriott and Firestone, 1983; Yin, 2009). Yet, when using multiple-case research method, all the cases should be carefully selected to ensure that they give similar results or contrasting results with anticipatable reasons (Yin, 2009). Since the study is to explore the innovation, innovation process and co-creation practices in the advertising industry, using multiple cases can help us have a full picture of these issues. Therefore, this study uses multiple case studies to conduct the research.

#### **6.4.4 Case selection**

In a case study, case selection directly influences the results we can achieve (Stake 1995), thereby determining the quality of the case study. Seawright and Gerring (2008) have pointed out that the selected cases in a case study should be representative and different on the theoretical interested dimensions. Creswell (2012) also argues that in

order to collect multiple perspectives, the interviewed firms need to include adequate variation.

The purposes of this study are to explore the nature of advertising innovation, co-creation activities in the innovation process and project innovativeness. Although one of the purposes is about project innovativeness, this research is not doing the study of individual project, but doing the study of firms, which means the differences discussed in the thesis are about clients, projects, and environments. Therefore, when selecting interview firms, we need to have a general investigation of these firms to ensure sample validity. In order to make the selection of cases in a systematic way, a purposive sampling strategy was leveraged. The top 100 creative advertising companies listed on the “Campaign<sup>12</sup>” are used to select the appropriate interview companies. The criteria used include creative capability of interviewed companies, company size, company location, whether the company is independent or belongs to a networking group company, and established time (Table 6.2).

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<sup>12</sup> An advertising website

**Table 6.2 The case selection criteria**

Criteria	Explanation
Creative capability	The focus of our study is how to develop new and innovative services, thus, in order to ensure the innovative capability of interviewed firms, these firms should have experience of receiving creativity awards in some competitions, such as Cannes Lions, D&AD, IPA effectiveness (Appendix 5), etc., almost every year.
Company size	In order to ensure the variety of advertising professionals' perspectives, the targeted interview firms should include small, medium and large advertising firms. Because advertising firms are KIBS, the traditional classification of small, medium and big firms are unsuitable for them. In this thesis, when the company has less than 99 employees, it is classified as a small medium size enterprise (SME); when the company has more than 100 employees, it is classified as a big company.
Company location	As the UK advertising industry is geographically clustered (Chapain et al., 2010), thus, the author selected the two largest clusters of advertising firms in England, Manchester and London, to conduct the research (Chapain et al., 2010). All the companies are from Manchester and London with the exception of one from Edinburgh. Although this company is situated in Edinburgh, it has very close relationships with London advertising agencies and has many collaborated projects with them. Thus, we also include it in.
Types of company	As discussed in Chapter 5, there are two types of companies: independent or belonging to a networking group. Thus, the interviewed companies need to include these two different types of companies: group or independent.
Established time	Because of the tremendous influence brought by internet, the author also planned to check whether the established time will influence how advertising companies manage their innovation process. Thus, some interviewed companies are established before 1998, while others are after 1998.

Source: Author

One of the reasons of taking these criteria into consideration is to have more representative examples and to help generalise the final results. By taking these criteria

into consideration, the author selected 25 companies. The general information of these companies is as follows (table 6.3). More detailed information of these interviewed companies is in appendix 5.

**Table 6.3 The selected companies by three core criteria**

	Independent/Group		Established Time		Size	
	Independent	Group	Before 1998	After 1998	SME (Less than 99)	Big (More than 100)
Companies	C1, C3, C7, C8, C10, C14, C15, C16, C17, C19, C20, C21, C22	C2, C4, C5, C6, C9, C11, C12, C13, C18, C23, C24, C25	C1, C4, C5, C6, C7, C10, C14, C15, C16, C17, C20, C22, C23	C2, C3, C8, C9, C11, C12, C13, C18, C19, C21, C24, C25	C2, C3, C5, C6, C9, C11, C13	C1, C4, C6, C7, C8, C10, C12, C14, C15, C16, C17, C18, C19, C20, C21, C22, C23, C24, C25
Total	12 Cases	13 Cases	13 Cases	12 Cases	7 Cases	18 Cases

Source: Author

## 6.5 Data collection

The primary research method of data collection in this thesis is elite interviews whose research targets are mostly interviewed companies' decision makers (Dexter, 1970). Such interviews are usually regarded as a good method in understanding people's perceptions, the detailed information of process, and complicated interactions (Dexter, 1970; Kvale, 1983; Miles and Huberman, 1994). As this research is aimed at understanding advertising innovation, co-creation within the process and advertising managers' understanding of KIBS project innovativeness and how it influences new service development, it is appropriate to choose elite interviews as the research method to address these questions.

Based on the nature of advertising services, the types of interviewees who are key decisions makers and influence and participate in the service innovation process are identified (table 6.4). The respondents were chief executives, founders, and directors of the departments of account, strategy, creative, and production as these respondents had rich experience in creating creative advertising campaigns. The potential informants were identified from advertising companies' websites and from 'Campaign A list' (Campaign, 2014) and were contacted through e-mails.

**Table 6.4 The key respondents**

Key decision makers	Description
Account director/Account department	Represents the voice of the agency; is responsible to keep the client relationship and needs to keep the client happy; the first impression that the client gets from the agency; manages every project member's time, all expenses, the company resources and makes sure the project is profitable to the agency; acts as the bridge between the client and the agency as they articulate what the client wants from the agency, then passes the voice of the agency to the client.
Strategy director/Strategy department	The voice of the consumer; proposes a clear and concise proposition of how the idea should be developed.
Creative director/Creative department	Create the innovative ideas; acts as the energy of creativity.
Production director/Production department	Needs to develop the ideas into real advertising products and to contact with external production companies.

Source: Author

The interview format is one-to-one semi-structured interview. Semi-structured interviews can assist interviewers in discussing the interview questions in-depth with interviewees (Arksey and Knight, 1999). Before conducting interviews, the author developed a research protocol to guide the interview process (Yin, 2009), including questions of advertising innovation, how to develop new services and the detailed stages and activities related to the development, KIBS project innovativeness, and learning and knowledge exchange in the innovation process. Before using the interview protocol to interview advertising managers, the author revised it several times by checking relevant literature and consulting supervisors. The interview protocol is to provide an interview-guide for interviewers rather than structuring interview orders or listing detailed interviewed questions (Arksey and Knight, 1999). The interview order should rely on how interviewees answer interview questions (Denscombe, 2003). The first three interviews were regarded as a pilot study. After that, the author changed some



of the interview questions. Almost all the interview questions used in this research are open-ended questions. In order to examine the intensity of co-creation across the innovation process, the author also used some structured interviewed questions by using seven point Likert scales. This is to quantify the result of co-creation intensity between service providers and clients.

The interview started with a general introduction to the background of the topic and the explanation of research objectives. Next, the author asked the interviewees some predetermined questions in the interview protocol. Sometimes, the answers of interviewees were incomplete, at these times, the author would ask some questions to guide them to finish the original research question. For instance, in the interview question of exploring their innovation process, after their description of their innovation process, they may leave out or forget to interpret some stages. Thus, in order to get complete answers to the research question, the interviewer would ask some complementary questions based on their answers to further explore their innovation process, such as the questions: how about media planning stage? Do you have any testing stage during the process of developing the new advertisement? What do you think of the evaluation stage? Therefore, the interview questions among interviewees were slightly different.

Therefore, this study is based largely on 45 interviews with 39 advertising professionals from 25 advertising companies. It is at least as much about the views of advertising professionals (e.g. their opinions about what are the most important innovations in advertising.), as it is about their companies' behaviour<sup>13</sup>. These interviews were conducted from 2014 summer to 2016 Spring. Generally, these interviews lasted from one to two hours. The author conducted just one interview in most of the advertising companies. However, in order to explore whether different managers have different views of their interaction with their customers and to validate the answers from interviewees, the author chose several interviewed companies to have more than one interview with their managers. In the advertising industry, there are two types of advertising agencies. One is organised as part of a network and formed as big advertising groups, such as WPP; the other is organised as specialist and works

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<sup>13</sup> Indeed, most innovation surveys are based on reports from a single respondent, and may thus largely reflect that person's views.

independently, such as Mother. Because the size and the location may also influence managers' interaction with clients and their views, the author selected 7 companies to have more than one interview with them to study the perspectives from different types of managers. The detailed information of these companies is depicted in table 6.5.

**Table 6.5 The general information of the seven companies  
having more than one interview**

Company	Independent/Network	No. of Employees	Location
C3	Group	50	Manchester
C4	Independent	220	London
C5	Independent	85	Manchester
C10	Group	320	London
C13	Independent	20	Edinburgh
C20	Group	493	London
C25	Group	200	London

Source: Author

In addition to interviews, this paper also used published documents, information in databases, industry journals, and the information in companies' websites to enable data triangulation by getting data from different sources, so as to improve the validity of the data (Yin, 2009).

## **6.6 Data analysis**

The data analysis approach should be based on the research epistemological position (King, 2014). Thus, the data analysis method used in this research is template analysis. When having interviews, the author used a recorder to record the interview and made notes of some important points from interviewees. Interviews included the following main themes: 1) advertising innovation; 2) the detailed stages of the innovation process; 2) participation and activities performed by advertising companies in different stages; 3) the influence of KIBS project innovativeness; 4) learning and knowledge management. The effective way to enhance the reliability of the data set is by transcribing all the interview recordings (Creswell, 2012) and organising the transcripts into a table in accordance with different themes to help analyse the data. Therefore, shortly after every interview, the author transcribed the recording verbatim, resulting in hundreds of pages

of transcripts. The transcripts of each interview were carefully reviewed along with the notes that the author made during the interview to highlight the key patterns and key data related to the research questions.

Before doing interviews, a “start list” of codes was developed from the research questions, key variables involved in the research and the conceptual framework (Miles and Huberman, 1984). In terms of how to name different stages, it was based on some previous work of advertising working processes and service innovation processes, for example, the production process developed by Burgoyne (2009) for advertising firms and the new service development models developed by Alam and Perry (2002). This list is not fixed which means that it is expanded during the analysis process when meeting some emerging themes. Then, the next step was to utilise the code list to codify the interview data and categorise them by different research themes (Miles and Huberman, 1994) and to check how the transcript could match with the predefined code list and whether there were any new codes emerging from the transcript. In this thesis, the analysis consists of three components (Table 6.6).

**Table 6.6 The analysis themes**

Three themes	Explanation
Innovation perception analysis	This is concerned with the perception of different advertising directors about advertising innovation. The analysis of this part is in Chapter 7.
Innovation process and co-creation	This is about the new advertisement development process and the co-creation within it. Based upon the data, the author conceptualised the service innovation process. Based on the innovation process developed, the author analysed the co-creation practice in advertising firms: how to involve the clients in the process and the co-creation activities. The analysis about this part is in Chapter 8.
Project innovativeness	The analysis of this part follows the analysis in Chapter 8. It discusses the influences of project innovativeness in the innovation process and in the interaction between advertising firms and clients. The analysis of this part is in Chapter 9.

In this research, the author used quotations to support the findings from the empirical data. Companies were not presented equally in the quotations. Some interviewees were more to the point or more articulate than others, and the most representative quotations were used.

## **6.7 Ethical considerations**

Research ethics, a major issue in qualitative research (Miles and Huberman, 1994), are defined as rules of behaviour (i.e. the conformity to a set of standards or principles) which guide the researchers' conduct related to the rights of people who participate in the research project or are affected by the research (Robson, 2011; Saunders et al., 2011). In qualitative research, researchers have contacts with people, thus they need to consider the rightness and wrongness of the people's actions when conducting the research (Miles and Huberman, 1994). In the course of the research process, ethical issues could happen in any phase of the research, for example in the research problem statement, in the purpose statement, in data collection, in data analysis, or in research report writing (Creswell, 2013). When designing a research, the problem identified should benefit the individuals involved (Creswell, 2013). Researchers should not disempower or marginalise the study participants (Creswell, 2013). Before the study begins, researchers need to explain the research purpose, the central research questions and sponsorship of the study to the participants, thereby building respect, trust and credibility between them (Creswell, 2013). As discussed by Saunders et al. (2011), research investigators should be guided by research codes listing the processes and principles of how to conduct research.

This study abides by the rules concerned with ethical issues in the Manchester of University Alliance Manchester Business School (Appendix 6 & 7). Therefore, the ethical issues considered in this study include:

- First, before carrying out the fieldwork, the researcher would send the *participant information sheet* (see appendix 6) and the *consent form* (see appendix 7) to the interviewee or give these forms to them before starting the

interview. Meanwhile, the investigator would explain these forms to them and then ask them to sign the consent form.

- Second, before the interview started, the investigator would require the permission of recording the interview from interviewees.
- Third, the researcher would tell the interviewees that their information would be anonymised during the analysis.

### **6.7.1 Limitations and validity issues**

Commonly, reliability and validity are used to evaluate quantitative research, yet, now, they are also utilised in qualitative research (Golafshani, 2003). In terms of their relationship, Patton (2002) claims that reliability could be treated as the result of validity. Lincoln and Guba (1985) also argued that it is impossible to demonstrate validity in a study if it does not have reliability. Therefore, the author will mainly discuss the validity issues involved in this research.

Yin (2009) identified three types of validity, including internal validity, external validity and construct validity. As internal validity is for evaluating explanatory studies, this thesis will only discuss construct validity and external validity. Construct validity deals with the correctness of operational measures regarding the concepts studied in the research. External validity concerns the generalisation issues of findings. Yin (2009) notes that researchers can use multiple sources of data and establish logic chain of evidence to meet construct validity. Therefore, this research collected data from multiple sources (e.g. interviews, companies' websites, and the press/news-items) to enable data triangulation, and tried to enhance the logic link across different components (e.g. literature review, research questions, conceptual framework, and research design) of the thesis.

External validity concerns the generalisability of the findings in a study. Exploratory work is typified by generalising generalisable insights and does not have to develop generalisable results. By exploratory research, researchers will find out some patterns and phenomena. These patterns and phenomena are not always applicable, but tend to contribute to develop more general theories and introduce some relevant elements to be considered in the research based on more representative or larger samples or on other sectors. Thus, the author includes both small and big companies, networking grouped

companies and independent companies, the companies born before 1998 and after 1998, and the companies from Manchester and London in the interviewing list to keep the interview answers' variety and to generalise the findings.

Additional, Maxwell (2005) points out two types of threats to validity in qualitative research, which are researcher bias and the influence of the study made on the individuals researched. Thus, in order to enhance the validity and the credibility of the findings in this study, the five strategies developed by Maxwell (2005) are adopted, including respondent validation, triangulation, "rich" data, quasi-statistics, and comparison. As mentioned above, the author used multiple data sources to enable data triangulation. Then, all the interviews were transcribed to provide a comprehensive picture of issues discussed in interviews (Becker, 1970). Subsequently, the author collected "rich" data from interviews, which helped mitigate the researcher bias when comparing with the studies which didn't transcribe the interview and only used the notes taken during the interview. After transcribing the interview, if the interviewee agreed, the author sent the transcript back to the interviewee to avoid any misunderstanding. However, probably due to the length of transcripts, none interviewee responded. The word count of each transcript is around 8000 words, which is difficult for them to check it within their busy schedule. Thus, the author chose 6 informed interviewees to have second interviews with them. This is to validate the key patterns found from the research. Regarding the strategy of quasi-statistics, it is about using numerical results which derives from the data to support arguments (Becker, 1970). Therefore, the author also counted the occurrence frequency of some identified patterns. In addition, the author did the comparison between different types of companies and interviewees to examine whether any striking difference existed between the interviewed companies regarding the patterns identified.

Although the author put so much effort in enhancing the validity of the research, this does not mean that this research has no limitations. One primary drawback is that this research is only based on the UK advertising companies. Having some interviews with other countries' advertising companies, in other service sectors, or with some big client companies will be helpful to generalise the findings and to find out the differences between countries, but it is not feasible within the limited fieldwork budgets and time allowed in PhD study.

## **6.8 Conclusion**

This chapter has articulated the conceptual framework, the research approach and data collecting method used in this thesis. The conceptual framework is used to link up each component of the thesis together. Based on the nature of this research, multiple case studies are used as the research method. The semi-structured interviews were used to explore the research questions listed in table 6.1. This section has also discussed the issues concerning research validity and limitations.

## **7 Research Result 1: The Nature of Advertising Innovation**

### **7.1 Introduction**

This chapter addresses the first research question: What is advertising innovation and how is it developed. As discussed in Chapter 2, this thesis will also examine how far the 6-dimension model of den Hertog et al. (2010) can be used in the advertising industry. But first, we present the results from the data inductively in section 7.2 to 7.5. Section 7.2 conceptualises the definition of advertising innovation and identifies advertising managers' perspective of the innovation reasons. Section 7.3 elaborates advertising innovation features. Section 7.4 discusses the identified key features of advertising innovation. Section 7.5 compares the proportion of answers from different types of companies. Then, section 7.6 examines how the identified features of advertising innovation fit into den Hertog's 6-dimension model. Section 7.7 concludes this chapter.

### **7.2 The nature of advertising innovation**

As mentioned in Chapter 6, the first aim of this research is to conceptualise advertising innovation and understand the characteristics possessed by innovative advertisements. Yet, before analysing the nature of advertising innovation, we need to point out that not all advertisements are innovative advertisements. As described by most interviewees, 90 percent of advertisements are quite boring and only involve very low degree of novelty in the advertisements. Because the focus of this thesis is on innovation, the author did interviews with directors or managers in innovative advertising firms based on the innovative advertisements they produced. Therefore, the author asked advertising professionals' perspective of advertising innovation during the interview. By using Nvivo to give a preliminary impression of the important words in their answers, the author counted occurrence frequency of the key descriptive words and elements mentioned by interviewees (Table 7.1 & 7.2)<sup>14</sup>. Through analysing the occurrence frequency of these words, we can have a preliminary understanding of the key characteristics of innovative advertisements and important elements in developing innovative advertisements. In addition, the author used Nvivo to produce a picture to visualise the occurrence frequency of these words (Figure 7.1).

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<sup>14</sup> The purpose of these tables is not to show the relationship between different words, but to show a preliminary impression of how interviewees describe advertising innovation or innovative advertisements.



**Table 7.1 The word count of the key descriptive words mentioned by interviewees**

<b>Descriptive Words</b>	<b>Word</b>	<b>Count</b>	<b>Word</b>	<b>Count</b>
	Innovative	188	experience	21
	Creative	187	original	20
	New	177	never	18
	Differently	115	surprising	18
	Interesting	51	disruptive	17
	Right	54	effective	14
	Good	44	impressive	13
	Best	33	entertainment	12
	Engagement	32	Successful	11
	Emotional	28	Strange	8
	First	21	Latest	6

Source: Author

**Table 7.2 The word count of the key elements mentioned by interviewees**

<b>Elements</b>	<b>Word</b>	<b>Count</b>	<b>Word</b>	<b>Count</b>
	Way	193	Story	32
	Idea	120	Culture	21
	Media	88	Revenue model	18
	Client	83	Audiences	16
	Technology	68	Platforms	16
	Content	60	Approach	13
	Consumers	51	Formats	12
	Channels	43	Elements	9
	Process	43	Forms	7
	Message	42	Storylines	4
	Data	35	Interface	4

Source: Author

Figure 7.1 The visualisation of the word count



Source: Author

The above tables and figure show that the key descriptive words that interviewees used to illustrate innovative advertisements include: different from other advertisements, creative, new, interesting, engaging, emotional, original, never done before, surprising, disruptive, effective, impressive, entertaining, effective, and successful. Innovative advertisements have to catch people's attention. Therefore, in order to catch people's attention, the advertisement can surprise them, entertain them and interest them so as to leave a marked impression and create an emotional effect. This in line with the view of Ang and Low (2000) who argue that creativity in advertising should include three dimensions: novelty, meaningfulness, and emotional content. Additionally, the elements repeated a lot of times by interviewees are: idea, media, content, technology, client, consumers, channels, data, strategy, revenue model, story, and storylines. This implies

that these repeated words may play important roles in creating innovative advertisements, particularly idea, media, content, technology, client, and consumers.

In terms of the definition of advertising innovation, interviewees viewed it as doing differently from what others are doing or the creation of a new (completely novel or slightly different) product, solution, or campaign that has not been seen before, to interact with consumers. Such products, solutions, or campaigns treated as new and innovative are partly related to the use of new delivery channels, new technologies, new types of data, new content, new ways to engage with consumers, etc. The following quotations are some interviewees' perspectives of advertising innovation:

*“Creativity means, almost by definition, doing something people haven’t seen before. I think we are inherently a creative industry because we have to bring events creativity. The truth is that innovation as it relates to the advertising industry, at the moment has tended to mean channels innovation and using technology in new ways, in particular inviting participation from consumers and getting, instead of the campaign being brands talking to consumers in one way. It’s trying to make campaigns where consumers participate, get involved in the campaign, and make it more of a dialogue, and then get involved. So, innovation is principally about finding new ways for consumers to interact with brands, and has been very driven by technology platforms and media platforms where digital technology enables consumers themselves speak quite creative.”* (C17, Creative Director)

*“I think the number one rule I suppose is doing differently from what everyone else is doing, you know, trying to express the benefit in a way that is fresh, original, humorous, different.....it's expressing ideas that's meaningful to people and are surprising and original.”* (C18, Creative Director)

*“The best understood example in a creative agency is the kind of work that has not been done before, or either come with a completely different solution to a problem, or a slightly different solution to a problem, so, you know, PR agencies and creative agencies are well founded doing, being the first agency to do something.”* (C24, Managing Innovation Partner)

*“The best advertising is some crazy innovative digital things, or traditional television ads. The best advertising, you know, moves you, it’s moving, emotional, makes you feel something. And there are lots of researches prove this.....I think the best stuff is that you make people feels something. I think sometimes you see things they are impressive, that technologically, you haven’t seen anyone do that before.....maybe the emotion is to make someone fell impress.....that sometimes works.”* (C25, Planning Director)

*“For us, innovation is about doing something that’s never been done.....Now, sometimes, that is using technology to do something that’s never been done before, but the discipline is technology or media neutral, I’ve never seen that before, I’ve never heard that before.” (C20, Head of Strategy)*

### **7.2.1 Why innovate?**

The aim of advertising is to deliver client message to consumers and to provide a channel for brands to interact with consumers. Interviewees consistently agreed that an innovative advertisement has more chances to attract consumers’ attention and leave a markedly impression on them. Given that digital advertising is becoming increasingly important, the development of advertisements is becoming more like a participatory experience. On one hand, digitalisation provides opportunities for brands to engage with their consumers in more new and creative ways; on the other hand, it creates challenges to advertising firms. For example, consumers are able to skip advertisements if they think they are boring and are not interested in them. The following is an example which illustrates the importance of creativity in advertising:

*“.....in these day, people would rather just skip the ad and they can just go to the next, but so, it’s always been very mindful of that, and thinking.....does the consumer wants to see an ad.....what they gonna take out from that.....so, you always try to engage on an emotional, reactive response from something. So, it’s keep that hard of that creativity, we have got to always pushing our creative excellence a higher and higher, to keep that engaged consumer, but always be mindful of what are the platforms people are looking at, where is everything going.....when you go to social media, they like YouTube, you see now, there are ads over everything, you can’t just avoid, you can maybe, when you click through and skip of 2 seconds. I think it’s just always been that’s why we are the agency that we continually push ourselves creatively, and we always kind of step outside the box and thinking about how people are reading this work, and how visually engaging...so they are not just go skip, that’s interesting, what’s in that, I want to see that.” (C4, Production Director)*

Therefore, under the increasing competitive business environment, how to solve client problem and deliver client message in a new, fresh and interesting way is becoming critically important in attracting consumer attention. Advertising firms have to push themselves to be more creative and in the meanwhile, push their business customers to be more creative. This is because their practices are co-shaped by their business customers. Pushing the creativity acceptance boundaries of their clients is beneficial for them to be more creative and competitive. In fact, this is related to the company

business development strategy. Therefore, when advertising firms try to push their clients to be more creative, they are implementing “the creative push” strategy. Among the interviewed companies, some companies do mostly what their clients require, while others have “the creative push” strategy. However, interviewees pointed out that one thing needs to keep in mind is that ‘the creative push’ is based on the client problem and the solution effectiveness and the client’s long-term business development rather than for the reason of being creative. As with other KIBS, the driven force in developing new advertising services is the client. When service providers develop solutions for their clients, the level of the solution innovativeness is based on their client business development strategy and the product/service characteristics. Service suppliers cannot be creative for creativity’s sake without taking each client specific conditions into consideration. Therefore, to be more creative or not is the match of business development strategies of both service suppliers and their clients. This indicates the importance of client selection in ensuring service success. Interviewees stated that if their strategy is to push their clients to be more creative to develop more innovative advertisements, but their clients are conservative and risk-averse, the cooperation between them is likely to produce ineffective solution. Nevertheless, owing to the fast changing and competitive business environment, most companies have already realised the importance of innovation in their business development. 22 of interviewed companies explicitly expressed that they have “the creative push” strategy. The following quotation is one of the examples:

*“It depends on the agency. We push them. We push them to not just be creative for creative sake; we push them because we believe the great creative connects with people in the real world, we think that great creative works like entertainment, and that drives the best short and long-term business success, which has been approved by the IPA (Institute of Practitioners in Advertising) data bank that emotional connection, driven from communications drives the best short and long-term sales. So, we really do believe that you need to be brave with your creativity. That doesn't mean being difficult or for provocative sake, that just means really pushing for the best possible way to connect to your consumer and really entertainment and engage them, so your communication works and doesn't get lost because there is so much like there. So, yeah, there are other agencies that might not push so much. Or I would say that there are more about answering clients' needs. But for us, the creativity is the most important thing. You want to make the best creative work for the client. And so, that does mean we will push them..... So, clients do come to [our company] wanting creative culturally impactful famous work. So, they*

*know what they are coming for, they want us to push them.” (C4, Strategy Director)*

Therefore, the reason of pushing for creativity is associated with the service supplier business development strategy, the client business development strategy, characteristics of advertising services or products, and the targeted consumers. Although a few companies prefer to just answer clients' needs and do what clients require, to be more innovative is becoming a necessary requirement of avoiding weeding out from the market.

### **7.3 Main features of advertising innovation**

In an advertisement or an advertising campaign, the two most important components are the advertising idea and the idea delivery channels. Apart from these two important components, there are many other elements contributing together to developing the innovative advertisement. Based on the characteristics of developing advertising, the word count did in section 7.2, the data from company websites, WARC, Canne Lions, some databases, the press, and interviews, this thesis finds that the key features of advertising innovation mainly rely on: service concept, advertising content, delivery channel, technology, data, client interface, consumer interface, changes in value chain, and changes in organisation. These features are interconnected with each other. The changes in one feature may induce the changes in other features. Advertising innovation is shaped by different combinations of these features.

#### **7.3.1 Innovation element 1: New service concept**

Service concept represents the service offering that agencies provide to their clients. It includes two categories: new advertising service concept and new services beyond advertising (the services may be complementary to, or even supersede advertising which may be a completely new service to new clients). The former is often related to the changes in content, while the latter usually refers to a new type of service developed to solve customer needs or problems or change the service responsibilities of existing services. For instance, many advertising companies are offering consulting services to their clients, which can be found from their websites.

Around 2000, many agencies began to provide digital advertising to their clients with the emergence of Internet. Indeed, what advertising companies provide is not limited to

advertisements. When they have a project, they need to think about what problems their clients have and how to solve it. Sometimes, the outcome from the advertising process is not a traditional advertising, but a new type of advertising or communication campaign. The following is an example from one of the interviewed companies:

*“For example, (a product) has a commitment of water usage, and that commitment has come from the very top of the organisation, from the CEO, that is created the brief, in terms of the problem. .... how the water is used in the product (they changed the ingredients of the product to let people just do one rinse to wash their clothes to save water, but actually, people also use three rinses to wash their clothes, so they need to change it, so they need to do something to help people use it correctly, but [one of the departments in the advertising company] which is our special practice, which is dedicated to solving problems in ways are not communications, so not advertising, but other things. And, so, they took this brief, and they said forget advertising, what else could we do to get people use our product correctly. I know one thing they looked at was creating a kind of bucket, some kind of special bucket that would encourage people to use the product in the right way. It’s quite interesting because obviously, they created the product to reduce the water usage, but it hasn’t actually delivered on that. So, they needed to go a step further...but what interesting is, you could say the problem is, oh, our product rinsed it three times, but actually...we got this product on the market called one rinse, and you only need to use one bucket of water, actually, the new problem they recognised, the whole new problem, actually is to get people to use it in a correct way in order to reduce the water usage. But it’s interesting how that problem set up helps to define the process, because when they define that problem, they said we want people to use the product in the right way, and they didn’t say we gonna to tell them with communications, we gonna to make advertising which I would normally do.....client would say the problem is people don’t use it in the right way, please make some advertising to show to people how to use it properly. Actually, we changed this special practice, they said, well, the problem is people don’t use it correctly, so how do we change that, rather than ..... what I mean by this is after the client would say making me some advertising, and now, increasingly, the client would say this is my problem, what should I do.....make a new bucket, do something that is not conventional advertising.....” (C10, Strategy Director)*

In the above example, the key of success is the agency does not limit their creativity on how to develop an advertisement, but on how to solve the client’s real problem. In order to develop the solution, they cooperate with some new partners to co-develop the plan of producing the “bucket”. Therefore, the advertising service that they provide cannot be regarded as the traditional service; it is a new service – the combination of design and marketing for services, which goes beyond advertising. The agency solved the

client's problem in a new way. In a sense, here, we can regard the "bucket" as a mean to deliver the new service concept.

Some companies even set up a new department to work together with their clients to solve their client business problems. For example, "Dig" – Digital innovation group, is a place that DigitasLBI uses to co-develop services with clients. "Dig" is an innovation program created with one of their business clients (AstraZeneca) to push the progress in the healthcare industry. Through "Dig", two different industries' employees can put their ideas, expertise and skills together to co-create new products and services, such as apps for patients. In this case, the firm is innovating a new type of service. Therefore, the new service concept used here is not limited to the concept of developing new advertising products, but also includes the creation of new types of services.

With the recognition of the importance of service innovation, advertising firms are not only changing the ways used to create advertising, but also changing the things they are doing. Therefore, their businesses are not limited to create advertisements. The solution of their clients' real problem may be not only just related to communications, but also related to some other aspects of their clients' products or services. This suggests that when agencies are developing solutions for client problems, they should not limit their minds in thinking about how to develop a creative advertisement. Rather, how to solve the client problem with the help of advertisement is the thing that they need to do.

### **7.3.2 Innovation element 2: Advertising content**

Idea is one of the core components in advertising. Based on the empirical data, all the interviewees treated the creative idea/innovative content as the most important element in developing innovative advertisements. Although there is a debate of content, interviewees knew what it was. Therefore, how to develop creative advertising ideas or generate creative content plays a crucial role in developing innovative and new advertisements. In each advertising solution, the content has to be customised to the specific client and is original. Nevertheless, different does not mean, and cannot guarantee, being innovative. Having different content is the first step to being innovative. Interviewees claimed that the content of an innovative advertisement needs to be interesting, entertaining and engaging, and to be organised in an innovative and interesting way to attract consumer attention. This is to leave an impressive impression



on consumers' minds. Indeed, by analysing the answers of respondents, the creation of new content is often related to the development of new advertising service concept, which implies that the content innovation is a sub-dimension of new service concept in developing advertising innovation.

The extent of innovativeness showed by advertising content has a wide spectrum and varies from each service solution. In developing advertising content, a wide range of elements need to be taken into consideration, such as the pictures, the characters, the design, the music, the layout, the words, etc. For example, the advertisements for two products which are in the same product category can be different in the characters or the music used. They can be innovative by using music in an innovative way or by making different combinations of different advertising elements, which creates a different and interesting experience to engage with consumers. Also, respondents said that an advertisement can be innovative by combining two quite different things together (which nobody has done before) and produce good effects on consumers. Such combination needs to be coherent. The following quotations are some examples which display the importance of advertising idea/content in innovative advertisements:

*"New advertising tries to put some strange things together... What people do every now and then is to put things together to create different combinations to attract people's eyes, to find something just making people feel fresh. It's quite similar to say that advertising is just about finding different combinations (weird and strange combinations) to attract people's attention, to let them feel fresh... We have to find something inside to make the product different. Then, we will provide some disruptive ideas." (C7, Executive Creative Director)*

*"It should be surprising... You need to have an element surprising them, it needs to be entertaining. It needs to be enjoyable to look at. You know, you are interrupting people's life essentially with these messages. And you need to entertain them, surprise them, amuse them in some way. Because you are playing in their space, you are playing in their life, otherwise, you are not worth to be noticed." (C4, Creative Director)"*

*"Innovation is about the look, the message, and the way we engage the public... An advertisement is a combination of many things. An advertisement is all about the design, the words, the colour, and the brand identity... it's a combination of everything to work." (C13, Creative Director)*

*"What you want to do is create some image or something people have in mind that they like, entertaining or relevant or interesting." (C5, Head of Strategy)*

Although the above quotations all show the importance of content, the effect created by the content is different. The first quotation above is the content for creating curiosity; the second and the third is the content for aesthetics; the forth is the content for creating surprise feeling. Apart from these effects, there are many other effects created by content. In a sense, these quotations highlight the artistic and aesthetic characteristics of content, which supports the argument of Chapain et al. (2010) and Stoneman (2009).

### **7.3.3 Innovation element 3: Delivery channels**

Delivery channels are another important feature in new and innovative advertisement development. Interviewees claimed that they can develop new media channels or use traditional media channels in new ways to produce innovative advertisements. The following quotations illustrate the innovation in media channels:

*“I think the interesting thing is the just looking what’s been done in the past is not necessarily work in the future, and the thing that very interesting is people allow you using, there are new medias which we are looking for entrances that specifically show examples people particularly using social media in new and innovative ways that have worked.....Actually poster is a really good example.....lots of people thought the poster industry was going through a very tough time, but actually it’s doing very well because the advent of the digital interactive posters.....” (C17, Creative Director)*

*“I mean I think you can still be innovative in press ad, in TV ad, even the channel isn’t innovative cause you can say it in a way no one said before.” (C25, Planning Director)*

Yet, in the current advertising environment, delivery channels are not limited to media channels. Although many innovations are in media, there are other types of innovations not limited to media (e.g. product placement, sponsorship, advertising in video games, billboards in video games, music in video games, etc.). Sometimes, the advertising company even create a new product to deliver the advertising message. Here, the product can be regarded as a delivery channel for delivering the client message to consumers, but also a single product for selling. Also, some companies put logos in clothes and ask people to wear these clothes and cycle around the city. Here, we can also say that putting logos in clothes is a new service concept. Therefore, some advertisements are difficult to classify.

Therefore, the innovation in this feature is not limited to the use of the regular media channels (TV, digital, print, poster, radio, direct mail, billboards, etc.) in new ways, but also include the utilisation of other items as new delivery channels. In this innovation type, the possible ways to be innovative are by using new delivery channels (traditional media or some other delivery channels), by creating new delivery channels, or by using existing delivery channels in new ways. Usually, using existing channels in new ways can be achieved by combining the existing delivery concepts/channels with new or existing technology to create new advertising experience or to create new ways to interact with consumers. Since the delivery channel takes the responsibility of making the abstract creative ideas live, it plays a significant role in deciding the effects of the final service product.

#### **7.3.4 Innovation element 4: Technology**

Technology is another important feature in advertising innovation. Although in section 7.3.3, we point out that new media channels typically involve new technologies or existing technologies used in new ways, technology can be involved in other ways, for example, in production, in animation, in content, in the interaction with clients/consumers, in data, etc. Thus, anything involves new information can involve new technology.

Although technology is not a necessary component in advertising innovation, it is increasingly important in assisting advertising service companies in developing more innovative service solutions. Currently, there are many advertising innovations driven by technology (technology-driven innovation). It is often used to realise the creative ideas, to create new media channels, to make traditional media channels be used in new ways, or to create new ways to engage with consumers, etc. The following examples display how to use technology to create innovative advertising:

**This is an instance of integrating new technology into a campaign to create a more immersive experience for consumers:**

*“I think there is always a push, always a search for innovation in terms of what is the latest way to entertain and emotionally engage. So, last year, there has been a lot of in virtual reality, so using Google cardboards with your phone to fly like a bird or explore the other places of the world, so, pushing the boundaries of technology and creating kind of experiences*

*that are much more immersive. It feels like that's the best of innovation cause people are looking at experiences are really important.....And virtual reality experiences are a way of doing rich immersive experience."* (C4, Strategy Director)

**This is an example of integrating technology with other elements of developing advertisements to develop advertising innovation:**

*"So, the market is blurring quite a lot, so you got creative innovation is still kind of core, but around the edges, there are lots of different types of agencies coming up with different ways, you kind of to work up what their version of innovation is.....our version of innovation is just doing creative and interesting things with technology, that what they always be, and other agencies say actually, there is a real opportunity for us to do something interesting with technology."* (C24, Managing Innovation Partner)

*"Through innovative use of technology and definition of the brand's digital purpose we invent products, services and experiences that offer new ways to communicate and engage with customers."* (C8, Creative Partner)

From above examples, the importance of technology in advertising innovation is evident, but the role of technology is more like a facilitator. The use of new technology is based on the 'core' idea generated by the advertising company. Interviewees pointed out that if a company uses new technology is just because the technology is new, such utilisation cannot guarantee the final service product innovativeness and the service success. Therefore, the use of technology is based on the condition of each advertisement development. The following quotation is a type of explanation of the relationship between technology and innovation:

*"There is no direct correlation between technology (new technology) and innovation. If innovation means something that is disproportionately or disruptively successful, so, if innovation means you just did something different, then, there is all source of new technology is fine..... But if you mean innovation is a disruptive idea that generates disproportional internal investment, that is no direct correlation between the application of technology. So, I couldn't say to you, if you use this approach to advertising, you are more likely to be innovative."* (C20, Head of Strategy)

### **7.3.5 Innovation element 5: Data**

Data is another important feature in advertising innovation. Particularly in recent years, it is becoming increasingly important. Data is often used as the way to make

advertisements more personalised and to target consumers. Data can be about consumer, about client, about evaluation phase, or about non-audience. The innovation in this element is very much to do with technology, specifically with information technology.

In the contemporary advertising industry, many advertising innovations are data driven. For instance, British Airways' billboard advertisement-*"Magic of Flying"* is an innovative instance of using the traditional media channel-billboard in a new way by connecting billboards with real-time data. Indeed, the innovation in this feature is closely associated with the department undertaking the responsibility of doing research and gathering data, and is also related to the technology of integrating real-time data into billboards. This indicates the multidimensional nature of innovative advertisements. Another way to innovate is to connect the advertisement to real-time data or personalised data. The following examples are given by interviewees:

*"When I walk into the tube station, there is a digital poster which says two for one or donates...They recognise my phone and they know that I like to donate. That's get really interesting. They use my data to send me a personal message.....We are much more personal by using the data; much more personal, much more interactive, I would say. Personalisation is the key to us, that's the most exciting thing about the future as well."* (C12, Creative Director)

*"The smart mobile phones which can track the product that you want and help consumers get the right message."* (C5, Chief Executive Director)

*"Digital advertising seamlessly integrates with, and increases the ROI by informing and adapting the message with all available digital data (user, trending, ad server) to contextualise, personalise and learn over time."* (C8, Creative Partner)

Although data is recognised as an important feature in advertising innovation, interviewees stated that data is often used as a way to facilitate the innovation in other features in advertising innovation. This suggests that the use of new data should be combined with other related elements in an advertisement to develop a meaningful and innovative advertisement. The following quotation is the view from one interviewee:

*"And data I think can help, but data by itself is not innovative, I think it helps unlock creative content, creative media channel, creative technology, but data on itself, I wouldn't say."* (C10, Account Director)

### 7.3.6 Innovation element 7: Client interface

Client interface describes the design of the interface between service provider and their business customers. It is concerned with the role of client in the innovation process. In KIBS, the interface between service providers and customers is the locus for service innovation, and the advertising industry is no exception. With the technology development, there are an increasing number of ways to involve clients in the process to cooperate closely. For example, the establishment of an internal database for communicating with their clients or the use of new technology to interact with clients are the innovations happening in the client interface. The following are some relevant examples of the importance of client interface in advertising innovation:

*“The ways that we use to interact with clients also have got big changes. Now, we can use video conference, sky calls, phone calls, face-to-face meetings. So, we have much more opportunity to work differently and more efficiently.” (C5, Chief Executive Dorector)*

*“New advertising is about engagement with the brand. Positive engagement.....” (C9, Director)*

### 7.3.7 Innovation element 7: Consumer interface

Apart from the interface with clients, another important interface in advertising companies is the consumer interface. Because advertising companies' end users are different from their customers, they have two-sided interface: the interface with customers (clients) and the interface with consumers (end users). Thus, new consumer interface is another feature of advertising innovation. According to the interviewees' perspective, the current advertisements focus more on the engagement and interaction with consumers. The trend of digitalisation enables advertising companies to have a lot of available platforms or channels to interact and engage with the consumers, such as the live campaigns or events. Additionally, there are other ways to engage people in social media comments and answers of social media comments or complains. Indeed, social media can be regarded as a base of innovation in this element.

Also, consumers are becoming an importance source of advertising innovation. Some interviewees said that consumers are used as the source of generating creative ideas in some projects. Some interviewed advertising companies are crowdsourcing innovative ideas from targeted audiences in some projects. Sometimes, advertising companies hold

the competitions of “the best advertising slogan”, which changes the role of consumers in developing that advertisement. Also, this implies that the role of consumers in advertising is not limited to the audience of the advertisement. The following quotations show the importance of consumer in advertising innovation:

*“Creativity means, almost by definition, doing something people haven’t seen before. I think we are inherently a creative industry because we have to bring events creativity. The truth is that innovation, as it relates to the advertising industry, at the moment has tends to mean channels innovation and using technology in new ways, in particular inviting participation from consumers...instead of the campaign being brands talking to consumers in a one way. It is trying to make campaigns where consumers participate, get involved in the campaign, and make it more of a dialogue, and then get involved. So, innovation is principally about finding new ways for consumers to interact with brands, and has been very driven by technology platforms and media platforms where digital technology enables consumers themselves to speak quite creative. You know, quite a lot of innovations actually come from consumers themselves, which is quite interesting.” (C17, Creative Director)*

### **7.3.8 Innovation element 8: Revenue model**

Revenue model is another feature for service innovation in advertising. It is associated with the by-product coming from the advertising innovation process, new measures of outcomes, new services (within or beyond advertising) developed. For example, when comparing with 15 years ago, the revenue model used in the contemporary advertising industry is much more complex. In some projects, the revenue that the advertising company can get is partly dependent on the performance of the final advertisement (e.g. clicks in new media). In some other projects, advertising agencies may need to undertake part of the risk of developing innovative advertisements, while sometimes the client company may take all the risks by setting aside 10%-20% of their advertising budget for trying the most innovative advertising ideas. The following quotation indicates that innovation can be brought by introducing new revenue streams:

*“Ideas that can communicate in new ways. The possibility of inventing new services, innovating new products, introducing new revenue streams.” (C8, Creative Partner)*

Additionally, some advertisements may need to produce a new product to realise the advertising idea. Such products can also be sold, bringing new revenue stream to both advertising companies and clients, such as the example listed in section 7.3.9. Also, as

the example of “Dig” mentioned in section 7.3.1, to develop the new service concept, the advertising companies need to design how they share the risk and revenue involved in the service.

### 7.3.9 Innovation element 9: Changes in value chain

Another feature of service innovation in advertising is about changes in value chain. For example, in order to develop a new type of service, the firm needs to develop a new value chain which usually involves new partners. Here, new partners refer to the new business actors involved in the innovation process to co-develop the advertising service. Sometimes, such collaboration is for one-off project, in other times, it is for a long-term collaboration purpose. Particularly when advertising firms are developing a new type of service, they usually need to develop a new value system, which often requires building relationships with new partners. The following is an example of co-developing the advertisement with new business partners:

*“The best example is to look at is something called live paint. Live paint was the most awarded campaign in the world last year.....it is essentially, reflective spray, you can spray on your bike or on yourself, its invisible to the naked.....and we created this spray in answer to a brief that [a brand] gave to us, so, [the brand] has, historically, been all about safety, they came to us and said, actually, they didn’t ask for a TV spot, they said we’d like to do something more interesting and so, another format that will capture people’s attention in a different way, cause I think they recognised they wanted to be a little bit sexier. They thought they might be more interested in ways to get that safety message out rather than doing a 30 seconds TV spot. But they didn’t know what the answer could be. We came back and said actually we found and we created a work with this company, (Another company), who helped create this product for us, which we then used as a marketing tool as well as a new product, so, we created a product to advertise [the brand’s] safety confidential but that product in itself is also a product in its own right, so, allows anyone who buys that product to think better of [the brand], it is a product that makes some money and covers the cost for [the brand], but also it’s going into other places, so it’s a cost centre for itself, a different way for us to make money. .... When you say innovation, it’s a very complex thing to explain, but that particular example.....some people think that’s an emotional tactic, and some people.....(think) it’s an innovative product in its own right. And the reality is both. Because it does exist on the shelf of [the brand].....and other places too. So, when you ask innovation in advertising, I guess the way we approach that brief from [the brand] don’t come back a TV ad, come back with something else. We thought as a team, put different things together, and created something differently, so, that’s*



*the form of innovation. But also, the product, the thing we created had quite a lot innovation in it.....” (C22, Managing Director)*

The above example also shows the new service concept developed, new revenue model generated by the campaign, and new delivery channels used to deliver client message. This indicates that it is difficult to classify one innovative advertisement to a single innovation element and the multidimensional nature of advertising innovation.

#### **7.3.10 Innovation element 10: Changes in organisation**

Changes in organisation are another feature of service innovation in advertising identified in this research. The innovation in this element is related to the new advertising development or new service concept. According to interviewees’ perspective, companies need to know how to make changes to adapt to the advanced technology development to survive in such a competitive and fast-changing business environment. For instance, in order to provide digital service to customers, advertising companies set up a digital department. With the growing importance of innovation in advertising, some advertising companies set up an innovation department to facilitate the innovation in their companies. In the example of “Dig” listed in section 7.3.1, it also involves a wide range of changes in the organisation to enable the implementation of the new service concept. Therefore, changes in organisation are also a significant dimension in advertising innovation.

However, there are some advertisements difficult to classify, for example changing the time of playing the advertisement, which is related to audience psychology. Viral advertising is also difficult to classify as the advertisement that consumers receive is the same. The product placement is another one which is difficult to classify; it is a new advertising concept and a new delivery channel, and has new advertising content. This indicates that many innovations contain several elements. And there could be other features of advertising, other than the 10 elements mentioned above, but the elements identified here are the important and easy to be perceived ones.

### **7.4 The discussion of the key elements of advertising innovation**

The following table delineates the key features of interviewees’ answers in responding to the question of their perspectives of advertising innovation.

**Table 7.3 The key feature of advertising innovation**

Key elements Company Code	G/I	Creative content	service delivery channels	Consumer interface	Client interface	Technology	Changes in organisation	Service concept	Data	Revenue model	Changes in value chain	Total
C1	G	1	1									2
C2	I	1	1	1								3
C3	G	1	1	1		1						4
		1	1	1				1				4
		1	1	1								3
C4	I	1	1	1	1					1		5
		1			1		1					3
		1	1	1	1	1		1	1			8
		1	1		1			1				4
C5	I	1	1		1	1	1		1			5
		1	1	1								3
		1	1									2
C6	I	1	1									2
C7	G	1	1		1							3
		1	1			1						3
C8	I	1	1	1	1	1			1	1	1	8
C9	I	1	1	1	1	1						4
C10	G	1	1	1	1	1				1		5
		1	1	1	1	1	1		1	1		7
		1	1	1	1	1						4
		1	1		1		1	1			1	6
C11	I	1	1		1							3
C12	I	1	1				1					3
C13	I	1	1	1	1	1			1			6
C14	G	1	1									2
C15	G	1	1	1	1	1			1	1		6
C16	G	1	1	1	1	1						5
C17	G	1	1		1	1						4
C18	I	1	1	1	1				1			4
C19	G	1	1	1	1							3
C20	G	1	1			1						3
		1	1	1	1	1						4
C21	G	1		1	1	1			1			4
C22	G	1	1	1	1	1	1		1	1	1	8
C23	I	1	1	1								2
C24	I	1	1	1	1	1	1	1	1	1	1	10
C25	I	1	1	1		1						4
		1	1	1	1	1						4
Total		39	36	25	20	13	9	8	7	6	4	
"C" refers to the word-"company", so "C1" represents the first interviewed company. "1" means that the interviewee's answer includes the feature. "G" represents that the company belongs to a networking group. "I" represents independent advertising company. The strength of red represents the size of number.												
		1	2	3	4	5	6	7	8	10		

Source: Author

The above table shows that all interviewees pointed out that creative content is a necessary component of innovation in advertising. According to interviewees' perspective, creative content is the "king" in advertising. This suggests that content innovation plays a core role in advertising innovation. Also, 36 interviewees pointed out that advertising innovation is closely related to the innovation in delivery channels. It can be new delivery channels or existing channels used in new ways. These are the elements receiving the most attention from interviews, which partly reflects their importance in advertising innovation. The next important element is the innovation in

consumer interface. With the trend of digitalisation, contemporary advertising pays a lot of attention to how to engage and interact with consumers. The aim of advertising is to convey brand message to consumer and influence consumer behaviour. 25 interviewees pointed out that innovation in advertising is related to the innovation in consumer interface. As discussed above, advertising companies have a two-sided interface. Another interface is with clients. 20 interviewees illuminated that the advertising innovation is associated with the innovation in client interface. These four elements (creative content, delivery channels, client interface, and consumer interface) receive the most support from interviewees. Then, 13 interviewees stated the importance of technology in advertising innovation. Revenue model, data, and changes in organisation have almost the same number of support from interviewees, respectively 6, 7, 9. Then, the changes in value chain receive the lowest support from interviewees. Only four interviewees expressed that the innovation in advertising is also related to the changes in value chain. Although the occurrence of the last four discussed features in the interviewees' answers is lower than other elements, this does not mean they are unimportant. This may be because the innovation in these elements is difficult to be perceived by interviewees.

As discussed in Section 7.3.1, in this thesis, service concept refers to the service offering that agencies provide to their clients. New service concept includes the new advertising service concept and the new services beyond advertising. New advertising service concept is closely related to the generation of creative content. The changes in content are usually involved with the changes in advertising service concept. Yet, content innovation does not have to involve the offering of different types of services. It is still advertising rather than other types of service, for example, consulting. Most advertising campaigns are quite standard. The newness involved in these standard campaigns is usually the way and the content they use to deliver the message. Some campaigns involve more incremental changes, while some other campaigns involve more radical changes. Therefore, a new advertising service concept usually involves content innovation. The difference is the novelty degree of content involved in the new advertising service concept. Therefore, in this thesis, the author argues that the content innovation is a sub-dimension of new service concept.

In the above table (7.3), in order to clarify these two types of concepts, the service concept in the above table (7.3) only counts a new type of advertising service and the new services beyond advertising and excludes the concepts only involving a new advertisement development. This is because of the close relationship of content innovation and a new advertisement development. From the above table, we can see the occurrence of new services is less than the occurrence of new advertising service concept. Only 8 interviewees explicitly mentioned the creation of new types of services.

Overall, innovations in content and in delivery channels are identified as the most important innovations in advertising. The next two important innovations tend to be in client and consumer interfaces. This is because advertising companies are becoming more collaborative and focusing more on the engagement with consumers. Technology is not a necessary component in advertising, but it can be a facilitator of changes in other dimensions. Given the influence of advanced technology development, the importance of technology in advertising is expected to increase. New service concept (new types of services), data, revenue model, changes in organisation and changes in value chain are also the key elements in advertising innovation. The occurrence frequency of these key elements in interviewees' answers indicates that the innovations in content and delivery channels are more common and easier to be perceived.

As discussed in Chapter 6, this research is at least as much about the views of advertising professionals as it is about their companies' behaviour. The author also selected some companies to have more than one interviews with their directors to check whether the perspectives from different directors were the same. There are 7 cases (C3, C4, C5, C7, C10, C20, and C25) we have more than one interviewee. In 5 of these cases (C3, C5, C7, C20, and C25), interviewees gave very similar answers. More specifically, in C3, all the interviewees pointed out that creative content, delivery channels and consumer interface are the key features of advertising innovation. In C5, interviewees almost have the same view. They all expressed that advertising innovation is related to the creative content and innovation in delivery channels. In C7 and C20, they all noted the features of creative content and delivery channels in advertising innovation. In C25, both pointed out that advertising innovation is related to creative content, delivery channels, user interface, and technology. Then, in 2 of these cases (C4 and C10), there are a wider range of answers. In C4, one interviewee pointed out a range of features.

This is because this person has a better overview of the company and has more open view of innovation in advertising. In terms of slight differences among different interviewees of the same company, it may be because these interviewees are the directors of different departments. Yet, overall, the answers from different interviewees in the same company validate their colleagues' view, which partly demonstrates the validity of these interviews. Then, in C24, the respondent is a judge of one of the world-famous advertising innovation awards, which indicates that the person is a very informed person. He pointed out all the features identified in this research. The result here does not give us the numerical of how the advertising companies' innovations are. We see different observers identified different sets of innovation. It suggests the implication of how to use survey to investigate innovation and provides how to design survey accurately. Yet in this research, it shows different sums variety of innovation and different elements of innovation. The results also depict what people thought as the most important elements in innovation and different pictures of advertising innovation.

## 7.5 Company Comparison

As discussed in Chapter 6, there were two types of interview companies: group or independent. These two types of companies have different working networks, thus comparing their understanding of advertising innovation is likely to shed light on their innovation differences. However, by analysing the empirical data (Table 7.4), the author did not find out statistical striking differences between them.

**Table 7.4 Proportion of interviewees' answers from different types of companies**

Proportion of answers Types of companies	Client interface	Consumer interface	Changes in value chain	Technology	Revenue model	Data	Changes in organisation
Independent	45%	53%	50%	50%	60%	57%	67%
Group	55%	47%	50%	50%	40%	43%	33%
Proportion refers to the percentage of the answers from independent or networking group companies.							

Source: Author

In the elements of user interface, revenue model, and data, the answers from independent companies are slightly higher than the answers from networking companies. In the elements of changes in value chain and technology, the proportion is the same. In the element of client interface, the answers from networking companies are slightly

higher than the answers from independent companies. This may be because networking companies have more networking resources to interact with clients. In the feature of changes in organisation, the answers from independent companies are twice the answers from grouped companies. This may be because independent companies are more flexible in making changes in their organisation structure, culture, and personnel.

Therefore, the innovation elements identified from interviews include: service concept, creative content, delivery channels, data, technology, client interface, consumer interface, revenue model, changes in value chain, and changes in organisation. Yet, from the discussion above, we can see that some innovative advertisements are difficult to classify, which suggests that there are some ambiguities of what a novel advertisement is and how to classify its innovation elements.

## **7.6 den Hertog's approach**

The above 10 innovation elements of advertising innovation are what we have inductively, yet how do these descriptions from the advertising professionals fit into den Hertog's 6-dimension model?

**Table 7.5 Fit the main elements of advertising innovation into den Hertog's model**

den Hertog's category	den Hertog's definition	Relevant examples from interviewees	Issues arising
<b>New service concept</b>	<i>"The service concept or offering describes the value that is created by the service provider in collaboration with the customer. The innovation is often a new idea of how to organise a solution to a problem or a need of a customer."</i>	1. The offering of consultancy service; 2. The example of "Compare the Meercat" <sup>15</sup> advertising campaign;	1. Mostly content; 2. Some new services beyond advertising; 3. In particular new advertising service concepts;
<b>New customer interaction</b>	<i>"The new customer interaction and the role customers play in the creation of value."</i>	1. The establishment of an internal database for communicating with clients; 2. The use of new technology to interact with clients; 3. Treat clients as a source of creative ideas;	1. Client interface; 2. Consumer interface; <ul style="list-style-type: none"> <li>Personalisation: Audience data is an important driver.</li> <li>Direct marketing;</li> </ul>
<b>New business partner</b>	<i>"The new value system or set of new business partners, i.e. actors involved in jointly co-producing a service innovation."</i>	1. Working with a boxing company to co-develop the advertising concept for another company;	1. Associated with the advertising and technology trend and new services developed;
<b>New revenue model</b>	<i>"Only a few new service concepts become successful service innovations as especially those services requiring multiple actors to produce have to find models to distribute costs and revenues in appropriate ways."</i>	1. In some advertising projects, the revenue that advertising company can get is partly dependent on the performance of the final advertisement.	1. New measures of the outcomes 2. The revenue brought by by-products of developing the advertisement; 3. The development of new services;
<b>New delivery system: personnel organisation, culture</b>	<i>"The organisational structure of the service company itself".</i>	1. The set up or outsourcing of digital department; 2. The addition or outsourcing of certain functional departments;	1. More about back office;
<b>New delivery system: technological</b>	<i>"This dimension pinpoints the observation that ICTs (predominantly, but not exclusively) have enabled numerous service innovations ranging from electronic government and e-health, to advanced multi-channel management, customization of services, introduction of self service concepts, virtual project teams and so on."</i>	1. Use new delivery channels (traditional media or some other delivery channels); 2. Create new delivery channels or use existing delivery channels in new ways; 3. New technology used in the innovation process;	1. Delivery channel; 2. Data used to target consumers (e.g. personalisation); 3. Technology; Technology driven innovation; <ul style="list-style-type: none"> <li>integrate new technology into a campaign to create a more immersive experience;</li> <li>Use a totally new technology or using existing technology in a new way;</li> <li>Integrate technology with other elements to develop innovative advertisements;</li> </ul>

<sup>15</sup> An advertising campaign for comparethemarket.com by using meerkat to deliver the advertising message to audiences. This campaign became a commercial success, which made the comparethemarket.com become the fourth most visited insurance website in the UK.

The above table (7.5) shows that the six-dimension model can be used to capture most of features of innovation that the author identified, but there are some issues emerging when attempting to fit the main elements of advertising innovation into den Hertog's model. First, the new service concept identified in this research has multiple meanings when comparing with the new service concept dimension in den Hertog's model. In den Hertog's model, the new service concept refers to the new idea used to solve customer problems or needs. Yet, here, the new service concept refers to new advertising service concept, which can fit into the new service concept dimension in den Hertog's model, and new services beyond advertising (new types of service). In terms of new advertising service concept, some may involve other dimensions (e.g. new channels), while others may not. Some new advertising service concepts are realised with the creation of new content within the same type of advertisement, for example, the novelty behaves in the areas of characters, scripts, designs, etc. Some other new service concepts concern new types of advertising (e.g. within same medium, but changing the advertising forms, such as product placement, sponsored programmes), which is different from standard advertising. "New services beyond advertising" means that the service concept created represents a new type of service. Such services can be complementary to advertising (e.g. the advertising firm is involved in the client innovation process to co-design the advertised product based on the advertising idea generated) or a completely new service to clients (e.g. providing consulting service or having a new type of advertising service). Sometimes, it is difficult to decide whether the innovation is a new concept or simply the use of new channel. Often, it would be both. For example, there are some difficulties to decide whether digital service is a new service concept or a new channel.

In addition, different from den Hertog's model, new service concept in this thesis contains some sub-dimensions. As discussed in section 7.3.1 and section 7.3.2, the new service advertising concept (which is a sub-section of the new service concept) has a close relationship with content innovation. According to the perspective of respondents, content is the most important element in advertising innovation. New service concept is often related to content innovation. Although the innovation element - content can be included in the new service concept in den hertog's models, we cannot see the importance of content and content capability in the innovation dimension model.



Pointing out that content innovation is a sub-dimension of the new service concept is to emphasise the importance of it and pay attention to the nuances involved in developing the new service

The second dimension of den Hertog's model is new customer interaction, referring to the "new customer interaction and the role customers play in the creation of value". According to the above description, customer interface is one of the important features of advertising innovation, which fits with den Hertog's model. However, apart from the customer interface, there is another significant interface – consumer interface. This is because advertising companies' end users are different from their customers, they have two-sided interface: the interface with customers (clients) and the interface with consumers (end users). Here, the two-sided interface means the relationship with customers needs to see in two ways: with business customers and with consumers (end-users). Consumers are not just passive information receivers, but are becoming an importance source of advertising innovation. Technology enables advertising firms to have more alternative interaction approaches to interact with clients and consumers. Some companies even crowdsource ideas from consumers, which means consumers act as the idea generator in their innovation process. Therefore, given the peculiarity of advertising services, advertising innovation dimensions include two interfaces: customer interface and consumer interface.

Regarding consumer interface, another above mentioned element of advertising innovation is closely related to it - data. Data is an important element in personalisation and direct marketing. Data enables firms to target the right consumer, such as targeting the people who like certain kind of food or music, which helps firms deliver the most relevant and useful advertising message to consumers. Yet, the importance of data is not limited to change consumer interface. Data can be regarded as a single innovation dimension in advertising. This means data is becoming a necessary component in some advertisements. The British Airways' billboard advertisement- "*Magic of Flying*" listed in Section 7.3.3 is a good example of data-driven innovation. In addition, when trying to position data in den Hertog's model, data can be put in the dimension: new delivery system: technological. However, the dimension - new delivery system: technological cannot capture all the features that the element - data has. Therefore, in advertising,

data is one of the ambiguity dimensions and cannot completely fit into the six-dimension model.

Another important innovation dimension in den Hertog's model is new business partner. Innovation type 9 (changes in value chain) identified above can fit into this dimension. Compared with before, advertising companies have more idea sources and more opportunities to collaborate with external organisations to co-develop advertisements. For example, technology companies are becoming a significant partner to advertising companies. This is related to the growing importance of technology in advertising innovation. Sometimes, advertising companies need to collaborate with some manufacturers to produce specific products through which the advertising message is delivered.

In terms of the new revenue model, sometimes advertising companies' revenue is based on the performance of advertisements. Unlike some other services, sometimes client may give a separate budget to advertising companies to try the most innovative advertising idea. This means the performance of these advertising ideas will not influence advertising companies' revenue. Additionally, in some cases, there are some by-products produced from developing the innovative advertisement. The selling of these by-products may bring a new revenue stream to both advertising firms and their clients.

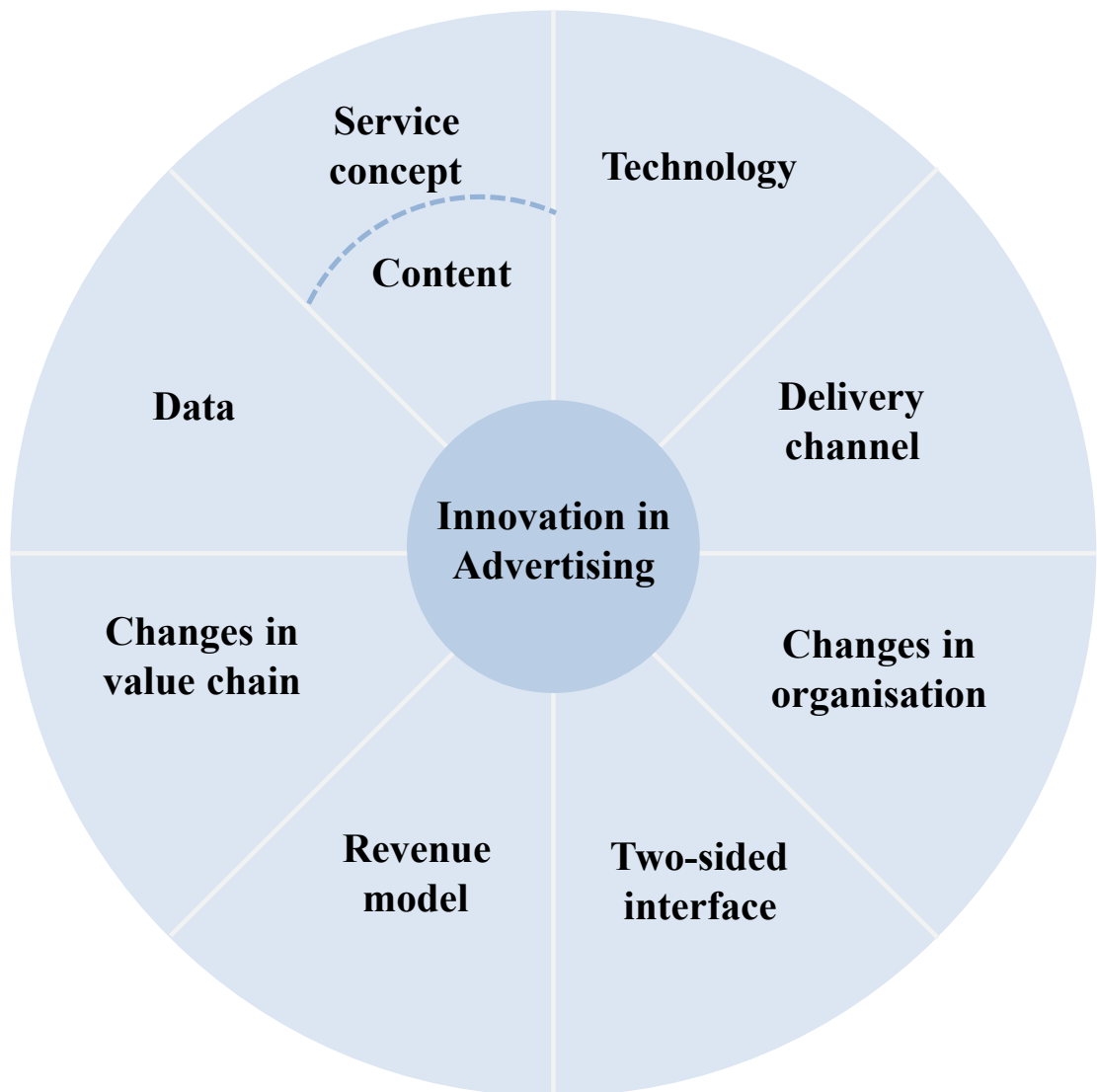
The next innovation dimension in den Hertog's model is the new delivery system: personnel organisation, culture. We can position the innovation element 10: changes in organisation into this dimension. Unlike most other KIBS, there is an artefact developed from the advertising innovation process, which indicates the importance of production phase in developing the innovative artefact. Yet, in den Hertog's model, he does not emphasise the production phase. Thus, the innovation element 10: changes in organisation identified above is more about the innovation in back office. There are some relevant examples from interviewees' answers. For instance, in order to provide digital advertising to customers, advertising companies set up a digital department. With the growing importance of innovation in advertising, some advertising companies set up an innovation department to facilitate the innovation in their companies. Therefore, changes in organisation are also a significant dimension in advertising innovation.

The last dimension in den Hertog's model is new delivery system: technological. Considering the innovation elements of advertising innovation identified above, new delivery channels are closely related to this dimension. The ways to being innovative in this dimension could be by using new delivery channels (traditional media or some other delivery channels), by creating new delivery channels, or by using existing delivery channels in new ways. Apart from the innovation element of delivery channels, data is also related to the innovation in this dimension. For example, new types of data can be integrated with delivery channels and technology to change how the service is delivered to audiences.

There is another element identified above: technology. When trying to position it into den Hertog's model, we find that this is another ambiguity dimension. Indeed, this feature is partly related to the new delivery system: technological, yet their meanings are different. In den Hertog's dimension, technology is emphasised as a facilitator to change the delivery system. Although in this research, technology is also a facilitator of innovation in delivery channels, it is not a necessary component. Many innovations in delivery channels do not have the involvement of technology. Particularly in the contemporary society, delivery channels in advertising are not limited to traditional media; many other things can also be the channels. This indicates that advertising companies may create new delivery channels, but such channels' creation is not necessarily related to technology. Therefore, the same as the role of technology in den Hertog's model, it is an important part of innovation in delivery channels in advertising. Yet, different from den Hertog's model, the role of technology is not confined to changing delivery channels. Indeed, interviewees emphasised that technology is becoming an important component to realise the advertising idea. For instance, companies can integrate new technology into a campaign to create a more immersive experience for consumer, use a totally new technology or use existing technology in a new way, use technology to change the advertising content, or integrate technology with other elements of developing advertisements to develop innovative advertisements. Sometimes, technology is also a necessary part to realise the new service concept. Therefore, the role of technology identified in section 7.3 is not the same as the role of technology in den Hertog's model.

The above illustration demonstrates that the elements of advertising innovation identified in this thesis can fit into den Hertog's 6-dimension model to a large extent, yet these identified features are more elaborated in illustrating the nature of advertising innovation. Therefore, den Hertog's approach provides a good base to understand advertising innovation. However, the differences discussed above suggest that producing a new model to further elaborate den Hertog's model by integrating the differences tends to enhance the understanding of advertising innovation. Therefore, this research generates an elaborated model based on den Hertog's six-dimension model, including service concept (with the sub-dimension of content), technology, delivery channel, changes in organisation, two-sided interface, revenue model, changes in value chain, and data. Some of the dimensions may be less important than other dimensions. The model can be used to help researchers understand the nature of advertising innovation. It also shows the key elements that can be involved in developing advertising innovation. Additionally, as an elaborating model of den Hertog's six-dimension model, it points out the importance of technology and data in the service innovation of the current society.

**Figure 7.2 Service innovation dimensions in advertising (Wheel model)**



Source: Author

As discussed above, the approaches of creating innovative advertisements or advertising services are by making different combinations of advertising innovation dimensions to create new and effective advertisements. Therefore, the nature of advertising innovation is mainly dependent on the newness included in the involved dimensions. The view of regarding innovation as the combination of different innovative elements is in consistent with the argument of Schumpeter (1939) and James Webb Young. The important issue here is how to make two or several unrelated elements of the service become a meaningful combination and how to integrate these elements consistently. The model

developed here delineates the possible innovation dimensions. Usually, a new service product can innovate in any innovation dimension or has any combination of several outlined dimensions. Although a service innovation in advertising tends to involve innovation in different dimensions, having changes in different dimension cannot guarantee the service product's success and innovativeness. This is because the above model only provides a picture of possible innovative dimensions, another important issue in developing new service product is how to match the changes in these different dimensions together. Additionally, as some examples listed in section 7.3, many innovative advertisements involve several innovation elements identified above, which demonstrates multidimensional nature of advertising innovation. Sometimes, a change in one of these dimensions will induce the changes in other dimensions, but the empirical relations among these dimensions are not statistical, but contingent and change overtime.

## **7.7 Conclusion**

The above analysis demonstrates that although the elements of advertising innovation identified above cannot completely fit into den Hertog's model, his approach provides a good base to understand advertising innovation. Therefore, the "Wheel" model is an elaborating model of den Hertog's 6-dimension model, including: service concept (content innovation), two-sided interface (customer interface and consumer interface), data, changes in value chain, revenue model, changes in organisation, delivery channel, and technology. Unlike most other service industries, content innovation plays a paramount role in advertising innovation and is a sub-dimension of the new service concept; advertising companies have two-sided interface: customer interface and consumer interface. Technology is playing an increasing important role in advertising innovation and is regarded as a significant facilitator of the innovation in other dimensions.

## **8 Research Result 2: Innovation Process and Co-creation**

### **8.1 Introduction**

As stated in Chapter 7, not all advertisements are innovative advertisements and only a small part of them can be regarded as innovative. The focus of this thesis is on innovative advertisements. Therefore, all the selected interviewed companies are the most innovative agencies in the advertising industry. Although these interviewed companies are recognised as innovative agencies, this does not mean all their service products are innovative. Some of their service products are very innovative, while others are more standardised. As these agencies are famous for their creative capability, the essence of most agencies is being as creative as they can, indicating that they tend to push their clients to become more creative. However, under such conditions, the innovativeness or the creativity of the campaigns created by them still varies campaign by campaign. This thesis mainly focuses on the innovative campaigns that they create.

Advertising agencies are different from most other KIBS firms. Unlike the services provided by consultancies, there is an artefact produced from the services that they provide. The focus of this thesis is on the innovation in these service products. In a sense, the activities involved in the innovation process shape the creativity of the service solution. Due to the difference of manufacturing and service products and the specificity of advertising services, investigating the innovation process of the advertising industry is far important. In addition, only we have a clear idea of what the innovation process in the advertising industry looks like, can we discuss how the people involved and activities happened in the process influence the creativity of the advertising solution and examine how advertising firms co-create with their clients.

Therefore, sections 8.2 & 8.3 investigate the new service development stages. Section 8.4 proposes the service innovation process in advertising. Moving from the understanding of new advertisement development stages and advertising innovation process, sections 8.5 & 8.6 provide a detail analysis of how service providers and client co-create. Section 8.7 focuses on the intensity of co-creation across the innovation process. Section 8.8 outlines the primarily used interaction approaches in the innovation process. Section 8.9 discusses the complexity of reality. Section 8.10 briefly introduce

the learning occurring in the innovation process. Section 8.11 is the conclusion of this chapter.

## **8.2 The New service development model**

For each of the 25 case studies, the main patterns and activities of the new service development process were analysed to identify how systematic these firms' innovation processes were. As mentioned in the methodology section, this research used a list of codes to analyse the data. These codes were developed from the literature, the research questions and the conceptual framework. Also, these codes were not fixed as there were some new themes emerging when analysing the empirical data. Therefore, based on the literature of new service development (Alam and Perry, 2002; Bowers, 1989; Scheuing and Johnson, 1989), some practitioners' work (Burgoyne, 2009) and the account of interviewees (The interviewees discussed a number of steps in the process. Most of them coincided with the process of Burgoyne, but some of them also added some new elements.), this research concluded fourteen stages to develop new advertising service. The following table (Table 8.1) sums the main stages of the new service development process and the main activities involved in each stage that were observed.



**Table 8.1 The stages identified and the activities performed in each stage**

NSD stages	Activities	Examples of the explanation from interviewees
Client brief	The starting point—ask clients to write a brief about their project, their problem;	<i>“We rely on our clients a lot. Because a lot of the time, when the client gives us a brief, we would ask, first of all, a client comes to us with a top level problem and say, here is our problem, we will say, ok, can you write that into a brief, which is maybe two or three sides long on A4 paper. So, you literally say, why is this brief here, what is the business problem that we are trying to solve, can you tell us the background of the product? We have certain things to ask for.” (C10, Account Director)</i>
Information collection	To obtain as much information as they can from their clients;	<i>“We would ask lots of questions about are your product good or better than your competitor, are your pricing correct, are your competitors doing what’s activity.....so, you have to have all these questions and eventually.....” (C13, Creative Director)</i>
Problem diagnosis	Discuss the project problems with the client;	<i>“Then, we take a look at how the brand is perceived, so, might do some research, the brand might think it’s old fashioned, but what the people out there think. They might either agree with that, they might .....the taste, the colour is wrong.....whatever it might be, we try to find out the business thinks it’s got a problem, do the customers think the problem is.....” (C3, Creative Director)</i>
Strategy planning	Propose the appropriate strategy;	<i>“.....spend a lot time to figure out what is the right approach, how can that company overcome that problem, then manifest itself, usually a strategy, which would involve a new positioning, and that positioning would probably then be summed up in a ..... we would develop communications that actually tell the story that we need consumers to understand it.” (C3,</i>

		<i>Creative Director)</i>
Creative brief	Shape the creative brief and deliver it to creative teams;	<i>“Client approves strategy, then you write the creative brief, creative brief is written by account manager and planners, and shared with creatives, so they know what’s coming.” (C13, Creative Director)</i>
Idea generation	Generate creative ideas;	<i>“Then you going to the creative development, this is slightly old fashion speak, creative development could be advertising, design, digital, social, experiential, what are all these about is ideas, all feeding to this, you then present the ideas to the client.....” (C13, Creative Director)</i>
Idea testing	Test the ideas generated by creative teams to select several creative ideas;	<i>“We do a lot of research, talk to consumers to get what they think of the ideas. Sometimes, we will let the consumers choose the idea, sometimes the client thinks don’t need to test the idea with consumers.” (C4, Creative Partner)</i>
Idea selection	Select the best idea;	<i>“Normally, we would give one direction, now, they might be options within that direction. I’d say this is the line we would decide to work with and here is a number of ways we can interpret that line, but in generally, we’ll try to go with one confidence, the direction.....It’s always grand until the client says I will buy that. So, yes, it’s a concept, it’s an idea. And if the client doesn’t like it, and tells what is wrong, then, we’ll be doing another.” (C3, Creative Director)</i>
Idea amplification	Amplify the core idea and apply it into different channels;	<i>“Because the client might say we don’t have many to do this thing on the television, I want to focus it on the activation idea that works mainly in the digital space. So, we have to adapt idea like that.....But it’s not so much about, you know, maybe if you just make that a little bit bigger, or make that pink. It’s more.....you got to trust the creative idea.” (C10, Chief Creative</i>

		<i>Officer)</i>
Production	Work with product companies to bring the idea into live;	<i>“Then, the production phase, those ideas go down the production teams.” (C10, Chief Creative Officer)</i>
Marketing Test	Test the accomplished advertisement;	<i>“The next stage is about the marketing test, but not all of the advertising needs to do the test. Just some.” (C6, Chief Executive)</i>
Launch	Launch the advertisement into market;	<i>“After the production, we will get the files ready to release in newspapers and website or TV.” (C2, Managing Director)</i>
Evaluation	Evaluate the advertisement and check whether it satisfies the client;	<i>“.....for most of our clients, that evaluation and learning feeding back into, and because of this conversation we had about retained business, it means your agency, this bit, the client brief bits, if the relationship is working well, the agency is working on the client brief with the client during the evaluation and learning.....” (C20, Head of Strategy)</i>
Learning	Learn from the advertisement and plan to further revise it;	<i>“After that, there will be a learning process. First of all, in this industry, you have to constantly evaluating of effectiveness. If you have a good relationship with the client, even if the campaign doesn’t go so well, hopefully, together, you can learn and try to understand why didn’t work. And hopefully, next time, you can learn from that and get it right.” (C11, Executive Creative Director)</i>
Re-launch?	Re-launch the revised advertisement into markets.	—

These interviewed companies were highly similar in reporting their new service development stages, varying from ten to fourteen steps. The following section is to discuss these stages in detail.

### **8.2.1 Stage 1: Client brief**

Regarding the first stage of the new service development process, it begins with the client brief which is about the client requirements of the advertising campaign. Usually, in this stage, clients show their expectations of the campaign and let their agency understand their general requirements of the campaign. In a sense, this stage is the formal starting point of how much creativity of the advertising campaign that the client requires. In KIBS, service innovation is driven by the client needs. The client brief heralds the beginning of a project, as described by one of the interviewees:

*“We rely on our clients a lot. Because a lot of the time, when the client gives us a brief, we would ask, first of all, a client comes to us with a top level problem and say, here is our problem, we will say, ok, can you write that into a brief, which is maybe two or three sides long on A4 paper. So, you literally say, why is this brief here, what is the business problem that we are trying to solve, can you tell us the background of the product? We have certain things to ask for.” (C10, Account Director)*

Although the respondents agreed on the role of the client brief, how the client brief played its role diverged from each other. Sometimes, clients’ desire of having an innovative advertising is quite straightforward, while in some other cases, clients’ desire is much more obscure. This means that some projects or some cases have a straightforward need of creating an innovative advertising, while some others may need more discussion between the agency and the client. In addition, in some cases, the innovating element is quite straightforward at the beginning of the process, while in others, it is worked out along the project work development. In general, the new service development process is shaped by both the advertising firm and the client: the creative capacity of the advertising firm and the desire of developing innovative advertising from the client.

### **8.2.2 Stage 2 Understanding client business (Collecting information)**

The stage following the client brief is the stage of collecting information. The goal of this stage is to understand their business, their requirements, and their expectations. Therefore, agencies will try to gain as much information as they can from their clients, such as the requirements, project objectives, what the problem is, what works before, what they need to do, etc. If agencies cannot gather all the required information from their clients, they will seek help from external partners, such as the research

organisations, consultancies, etc. All the information required is used to further understand the client brief, to dig into the client business, and to find out the communication or development problem. Without gleaning adequate information from the client or from external organisations, it would be difficult for agencies to get deep insights of the client business and to fulfil their potentials to produce the best solution as far as they can. All the best work is based on the deep understanding of the client business and the client brief. Gleaning the required necessary information to have a deep understanding of the client brief is the prerequisite of shaping a good strategy and then developing a creative idea to produce the creative and effective campaign. Therefore, the stage of collecting information plays a paramount role in influencing the results of the process.

### **8.2.3 Stage 3 Problem diagnosis**

Then, it is about diagnosing the advertising problem. Agencies need to find out what the real problem is, what the real need of client is, what they need to do, what they can do, etc. Sometimes, the client may have the wrong perception about their advertising problem. Therefore, the responsibility of advertising agencies is to help the client diagnose their real problems. The following is an example given by an interviewee:

“The first stage is just a new brief, normally, we would go in and the client would talk about their business problem, what do they want the brand stand for, what do they, how they got something that they want to overcome, are they attacked by certain sector, are they losing market share, what is the problem that’s driving marketing. Cause.....normally.....the brand becomes old fashioned, we need to remodelise, we need to be more price competitive, those sorts of questions. Then, we take a look at how the brand is perceived, so, might do some research, the brand might think it’s old fashioned, but what the people out there think. They might either agree with that, they might .....the taste, the colour is wrong....whatever it might be, we try to find out the business thinks it's got a problem, do the customers think the problem is, and we take those, and spend a lot time to figure out what is the right approach, how can that company overcome that problem, then manifest itself, usually a strategy, which would involve a new positioning, and that positioning would probably then be summed up in a ..... we would develop communications that actually tell the story that we need consumers to understand it.” (C3, Creative Director)

#### **8.2.4 Stage 4 Strategy planning**

After finding out the real problem, the next step is to shape the strategy of developing the creative idea. In the process of developing advertisement, strategy acts as the direction of how to create the creative idea and plays a crucial role. In a sense, strategy is to regulate the route for developing the advertisement. The following quotation illustrates the effect of strategy:

*“Then we aim to gather together everything we learn, and boil down and still it down to one simple sentence, very short sentence or even one word to what the brand stands for, or the role of communication. That’s the role of strategic planning, that then becomes the brief for the creative department.” (C21, Managing Director)*

#### **8.2.5 Stage 5 Developing creative brief**

Then, strategists need to transform the strategy into creative brief, which is to guide the creative process and give some instructions to the creative people to develop more appropriate creative ideas. To this point, the information included in the creative brief is the most important information. The strategists have already screened out the useless information and sorted out the useful one to help creative people generate creative ideas. As stated by one of the interviewees:

*“In a creative briefing, you will have some backgrounds of the company... what’s the issue facing the company, what it is the key message, what is the personality of the company, what is the language and voice we should use, who are the targeted audiences, what types of campaigns that the company is looking for etc.” (C13, Creative Director)*

#### **8.2.6 Stage 6 Idea generation**

Up to this stage, the main project participants transfer from the strategy department to the creative department. At first, the creative brief is delivered to creative teams who take the responsibility of generating creative ideas. Before getting the most creative idea, there are many back and forth stages between generation and selection.

#### **8.2.7 Stage 7 Idea testing**

The empirical evidence shows that there are two types of approaches of getting the final creative idea. In the first approach, creative teams may generate some ideas at first, then, they may do some tests among consumers, then, generate some new ideas or revise the

ideas that they generated before, then, do some more tests. Thereafter, the agency selects some ideas that they think as creative to present to the client. During the presentation, they explain every idea in detail to make their client understand it as deeply as possible. Up to this point, it is the time for the client to make the decision of which one they should use for their campaign or whether the agency needs to regenerate the idea or they need to revise this one a little bit or that one a little bit or whether the agency needs to do more tests. In the second approach, before having a formal presentation with clients, agencies tend to have a *'tissue session'* with clients to have more understanding of their requirements or preference of the creative idea. *'Tissue session'* can be regarded as an informal discussion with clients, which is to show some drafts, uncompleted ideas to clients. These ideas represent how the agency plans to develop the campaign and show different routes of generating the final creative idea. What the agency wants to get from the *'tissue session'* is whether their clients have any preference of creative ideas and to help them narrow down the possible range of idea generation to avoid wasting time in some impossible ideas. To some extent, the *'tissue session'* implies the importance of communication between the creative teams and the client. Therefore, before having the *'tissue session'* with the client marketing team, the copywriter and art designer sit together and brainstorm to develop some routes of how to design the creative idea. Then, they discuss these routes with their clients to select one or some to further develop. After this, in order to have some quantitative or qualitative evidence, the agency may do some tests to demonstrate the effectiveness of their creative ideas. The following quotation is an example of testing ideas with consumers:

*"Because we can say here are six ideas, we are going to do is, we know that you prefer to those two of them. But we are going to go back to those consumers that we are going to show them these six ideas. And actually, we will see that those two one of them is great, but the other one the consumers are not taking the messaging out of it that they should be taking out of it. So, this almost another kink of process whereby we go back to see these consumers again that you told us that you want to be green, blue or pink, or you want to be cheaper. So, you check in, check in, check in, then, you got the right communication and take out those consumers got the right take out." (C1, Chief Executive)*

### **8.2.8 Stage 8 Idea selection**

Based on the results of research, the agency selects the one or two that they think as the best to present to their client. During the presentation, the agency does not just present the ideas that they think as the best. Due to the different thinking style and the difference in personality, during the idea presentation, the agency may give some other backup options to the client. Based on the agency recommendation and presentation, the client decides which one they think as the best. Then, the one that the client chooses is the core idea of the advertising solution.

### **8.2.9 Stage 9 Idea amplification**

The result of the creative process is that the agency and the client select a core idea together. The core idea needs to be further amplified to apply into different media channels. Therefore, once the core idea is selected, the next stage is to select the media channels. As the core idea developed in the creative process can be used in different media channels, once the media channels are confirmed, what the creative teams need to do is revising the idea to make it suitable to put into different channels.

However, not all the campaigns follow the sequence of idea first, then the media channel. Ideally, it should work in this sequence, yet in some campaigns, the media has already confirmed before generating the creative idea. This is to say that the campaign is guided by the confirmed media rather than idea. Therefore, what the creative teams need to do in the creative process is to generate some ideas to match the confirmed media channels. In terms of the right sequence of the idea generation and the media selection, the opinions vary from person to person. Some interviewees think that the right approach is to let the idea guide the media, which means that idea should be generated at first, then choose the possible media. Most interviewees said that using the media to guide the idea tends to stifle the creativity of their employee. In short, they thought letting the media guide the idea is not the right sequence of developing the best advertising campaign. In contrast, some other interviewees argued that this question is like the question of “*chick and egg*”. In their opinion, there is no rule here and both sequences are the right sequence. What important is how the agency and the client make the best match between the idea and the media. In other words, they think this is a



problem to the industry and they also do not know which one is the right approach, as illustrated by the following quotation:

*“It’s an internal question, to be honest. It’s still a question. I mean, it’s a little bit like chick and egg situation, to be honest. Because it’s a hard one to work out. What we try to do is work very collaboratively with the media company. So, we always on board with whoever our client media company is, and it’s usually a little bit like back and forth about what comes first, working out the media plan, or working out the creative and then through the media. Automatically, creative has to lead the channels, really. I mean, in the ideal situation, that’s how everyone would have to work, really. It’s just sometimes, due to time pressures, that’s not possible. Sometimes, the radio has already booked, so we have to come up with the radio idea...when it works best, we all work together, we work out what the budget is, like they only got a small amount of money, we won’t be able to do a big TV campaign, so, creatives always need to have that in mind anyway. But, you’re just looking for a really great idea,. and if it’s an amazing idea, but only works on Instagram, then you want to work with media companies, ok, right, forget the fact we are going to do billboards, we want to do Instagram only campaign. Mostly, that’s how it works, the media company and us really work together and...but I mean, just due to time constraints, or whatever the reason is, sometimes, the media is already chosen for us already, but more and more, everyone tries to work together to get the best possible because you need to, really. It needs to be cost effective and effective; it so much depends on the channels that you choose to go down. So, it’s kind of a real collaborative process.” (C4, Creative Officer)*

Therefore, unlike the innovation process in manufacturing, sometimes, in the advertising industry, before generating the idea, how to implement the idea has already confirmed. In manufacturing, generally, it is idea generated at first, then deciding how to produce it. Indeed, with the advanced technology development, the media industry has experienced a transformation. There are many new and innovative media channels emerging in the last decade. Respondents expressed that on one hand, with the innovation in the media industry, advertising agencies get more approaches to amplify their creative ideas, which give more space to advertising agencies to create innovative campaigns; on the other hand, it has some negative effects on the creativity of generated ideas. This is because the power or the newness of the media technology may make people neglect the essence of advertising and the importance of idea.

### **8.2.10 Stage 10 Idea production**

After identifying the media channels, the next stage is about producing the idea into real advertisements. It is evident that the idea generation stage is far important than many other stages, but the value of the creative idea is dependent on how the agency produces it. Without having the right partners involved in the production phase or having the right people involved in, a creative idea would be ended up with a boring advertisement coming out from the process. The following quotation depicts the importance of production:

*“.....a huge part of that process, you could end up doing a beautiful idea, and then if you haven't a right production partner and the right map.....you could end up with a really diluted idea. Because, it hasn't had all these necessary steps to make sure, you got the best director for that, you know, he was the partner for that project, so, the post company, you are pushing them doing everything they can. The pinnacle to those kind pinpoints is making sure you have right casting, always always always never being happy with ok, it has to be amazing.” (C4, Production Director)*

### **8.2.11 Stage 11 Marketing test**

After the production stage, some campaigns may need to do some tests before launching the advertisement into markets. Here, the test is to ensure the effectiveness of the campaign. Particularly in the campaigns with huge budgets, clients tend to have the requirements of doing tests before releasing the advertisement.

### **8.2.12 Stage 12 Launch**

Then, it is the time to launch the advertisement into the market. Yet, launching is not the end of the campaign. Sometimes, the launching is to examine how consumers react to the solution. Then, the advertising company may need to amend the advertisement, and then relaunch it.

*“After the production, we will get the files ready to release in newspapers and website or TV.” (C2, Managing Director)*

### **8.2.13 Stage 13 & 14 Evaluation and learning**

Launching does not mean that all the work has already finished. Both agencies and clients need to observe how consumers respond to the advertisement and whether the

advertisement produces good effects; if not, whether the agency needs to do some revision of the advertisement and re-launch it. Moreover, as most of the agency businesses are based on retained clients, the contracted agency has the responsible to oversee the effectiveness of the advertisement, and to learn from it. For retained clients, what the agency learnt in previous projects can be quickly put into practice in the following projects. In addition, evaluation and learning enable agencies to keep consistency between projects for retained clients. Thus, after launching the advertisement, it is not the end of the process. Evaluation and learning stages are the following two important stages.

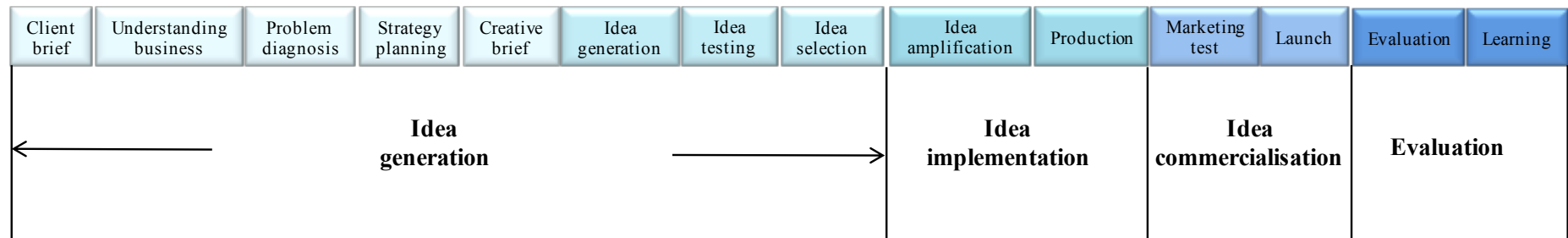
Indeed, in KIBS firms, learning by doing is the approach that they use to improve their skills, thus evaluating each project and then learning from each project are the necessary stages. In addition, in the advertising industry, most agencies are dependent on their retained clients to continue their businesses. Evaluation and learning are the way to make some connections between projects. As illustrated by some interviewees:

*“.....But also, what we are now doing is almost launching it, we are, definitely, will do some testing before you launch for an ad. But sometimes now, we just put lots of things out, test them, and then kind of refine them afterwards.” (C24, Managing Innovation Partner)*

*“And another important change is that when you launch something, the evaluation of a campaign is not left until two months done line. The evaluation is almost instant because you immediately know what the feedback is on your campaign in social media. So, ideally, you got to think about how you got to manage your campaign from the moment it launches in social media.” (C21, Managing Director)*

Therefore, the whole new service development process begins with client brief, and then is constituted by the stages of understanding client business, diagnosing advertising problem, planning strategy, shaping the creative brief, generating ideas, testing ideas, selecting the idea, amplifying the idea, producing the idea, testing, launching the advertisement, evaluating the project, and learning. Based upon these stages, the author developed the following process.

**Figure 8.1 The detailed stages of the advertising service innovation process**



Source: Author

The above figure shows that it is similar with other stage accounts in the literature (Bowers, 1989, Scheuing and Johnson, 1989, Alam and Perry, 2002, Burgoyne, 2009), but the model here is more elaborated and is based on the advertising industry. The model is idealised. In practice, the working process does not proceed in such a linear order but rather moves back and forth between the phases or stages. In some projects, advertising agencies may leave out some stages. For instance, in the projects which are the extension of previous projects and where clients only have the requirement of applying the advertising idea developed in another media channel, the stages before idea amplification are all left out. Additionally, these stages are the general stages used to develop new advertisements. Most interviewed companies will go through these stages in their new projects. Some companies may just need to go through part of these stages and leave out some stages, such as the stages of idea testing and marketing test.

### **8.3 The discussion of the development stages**

The following table (8.2) displays the key stages of interviewees' answers in responding to the question of the advertising development stages.

**Table 8.2 The main stages of new advertisement development**

Key Stages Company Code	Client brief	Understanding client business	Problem diagnosis	Strategy planning	Creative briefing	Idea generation	Idea testing	Idea Selection	Idea amplification	Production	Marketing test	Launch	Learning	Evaluation
C1	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C2	1	1	1	1	1	1	-	1	1	1	*	1	1	1
C3	1	1	1	1	1	1	1	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C4	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	1	1	1	1	1	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C5	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C6	1	1	1	1	1	1	1	1	1	1	*	1	1	1
C7	1	1	1	1	1	1	1	1	1	1	1	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C8	1	1	1	1	1	1	1	1	1	1	*	1	1	1
C9	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C10	1	1	1	1	1	1	1	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C11	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C12	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C13	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C14	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C15	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C16	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C17	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C18	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C19	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C20	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C21	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C22	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C23	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C24	1	1	1	1	1	1	*	1	1	1	*	1	1	1
C25	1	1	1	1	1	1	*	1	1	1	*	1	1	1
	1	1	1	1	1	1	*	1	1	1	*	1	1	1

"C" refers to the word-company, so "C1" represents the first interviewed company. "1" means that interviewee's answer includes the feature.  
 "\*" means that only in some projects, the company will have that stage. "-" means that the interviewee explicitly said no to that stage.

Source: Author

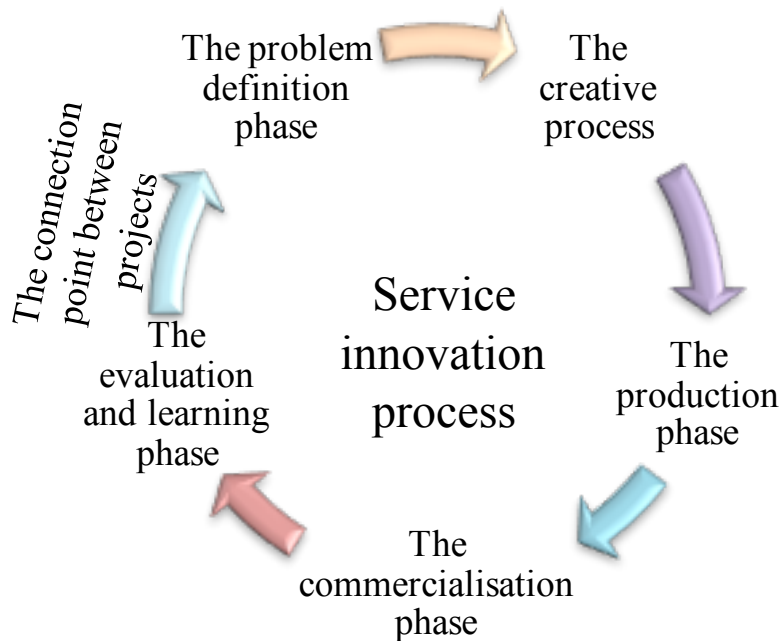
The above table shows that the new advertisement development stages are almost the same in the interviewed companies. The difference is in the idea testing and marketing test stages. The idea testing stage is to test the creative ideas; the marketing test stage is to test the effectiveness of the final advertising product before launching it to the market. These two stages are only needed in some cases. For example, for TV production, it is highly likely that the client requires testing the TV before launching it, while in some other small projects, the testing before launching is unnecessary. In a similar vein, the idea testing is not a necessary stage in developing new advertisements. Whether the advertising company will test the creative ideas depends on the project characteristics.

Also, the above identified stages are the stages for new projects or new clients. For some continued projects or the work for existing clients, some of the upstream stages may be not needed, such as understanding client business, strategy planning, idea generation, idea testing, etc.

#### **8.4 The service innovation process**

The above detailed delineation about the new service development stages is the detailed version of the new service development process. Based on the above detailed delineation and the existing literature of service innovation processes, the service innovation process in the advertising industry is constituted by the problem definition phase, the creative phase (the idea conceptualisation), the (idea) production phase, the (idea) commercialisation phase, and the evaluation and learning phase. The service innovation process is displayed in the following figure:

**Figure 8.2 Service innovation process**



Source: Author

Unlike product innovation process in manufacturing, the first phase of new service development process focuses on diagnosing the problem with clients. The client is usually the driven force of new service development in KIBS. Before generating the new service development concept, diagnosing the real problem of client business acts as the guideline. In addition, differing from the product innovation process and the service innovation process generated for other industries, this process includes the phase of evaluation and learning. Through adding this phase, we can see the connection points between different projects. The following is an example from one of the interviewees:

*“.....for most of our clients, that evaluation and learning feeding back into, and because of this conversation we had about retained business, it means your agency, this bit, the client brief bits, if the relationship is working well, the agency is working on the client brief with the client during the evaluation and learning. So, the last piece of activity feeds the next piece of activity.” (C20, Head of Strategy)*

In sum, although the creative services are characterised by their creativity and originality, but they do use a systematic approach to regular their way of how to produce innovative services. A closer examination of the processes and stages described by respondents reveals that most of the companies put a great deal of their



effort and emphasis at the beginning of the process. The most important stage is often the stage of problem diagnosis or information collection. This is consistent with the some scholars' findings (Zomerdijk and Voss, 2011). Every firm gathers as much information as possible at the beginning of the process to get deep understanding of the client organisation's business and the product planning to advertise. Typically, it involves interaction with the client organisation, the targeted consumer and marketing research organisations.

#### **8.4.1 The transmutations<sup>16</sup> in the innovation process**

The above innovation process divides the stages of new advertisement development into five different phases. Before the commercialisation phase, each phase represents one type of transmutation. Developing an innovative advertisement is not a simple task and involves a wide range of people's hard work. Our empirical evidence shows that there are three different transmutations occurring along the process: transmuting the client brief to the creative strategy, transmuting the creative strategy to a creative idea, transmuting the creative idea to an advertising product (advertising campaign). This is in line with the argument of Nov and Jones (2003) about the three transformations occurring in the new service development process. Every transmutation is not a simple task and signifies where the difficulty lies in the process. In addition, in a sense, these transmutations represent the nature of creativity. They symbolise how the process shapes the creativity of the final advertising solution. At the beginning of the process, once the agency receives the client brief, the first transmutation of their job is transmuting the client brief to creative strategy. This is the first transmutation and plays the fundamental and paramount role in developing creative campaign. In order to generate creative ideas, proposing a creative strategy can have much contribution to the creativity of the generated creative idea as the strategy regulates the route of developing the idea and acts as the guidance of developing creative ideas. The following quotation shows the importance of strategy:

*".....when you think some of the best advertising, most of it comes from very simple planning.....it's the planning department that actually has a big influence of what is we say about this brand to the public. So, the*

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<sup>16</sup> This thesis uses 'transmutation' in the common sense of transformation, but additionally representing the change from a lower state to a higher state.

*creative department's responsibility is about turning out something which is a big more engaging than a statement like it's worth the wait. Then, the production department will, do the best to make sure it produces as brilliant as possible....." (C21, Managing Director)*

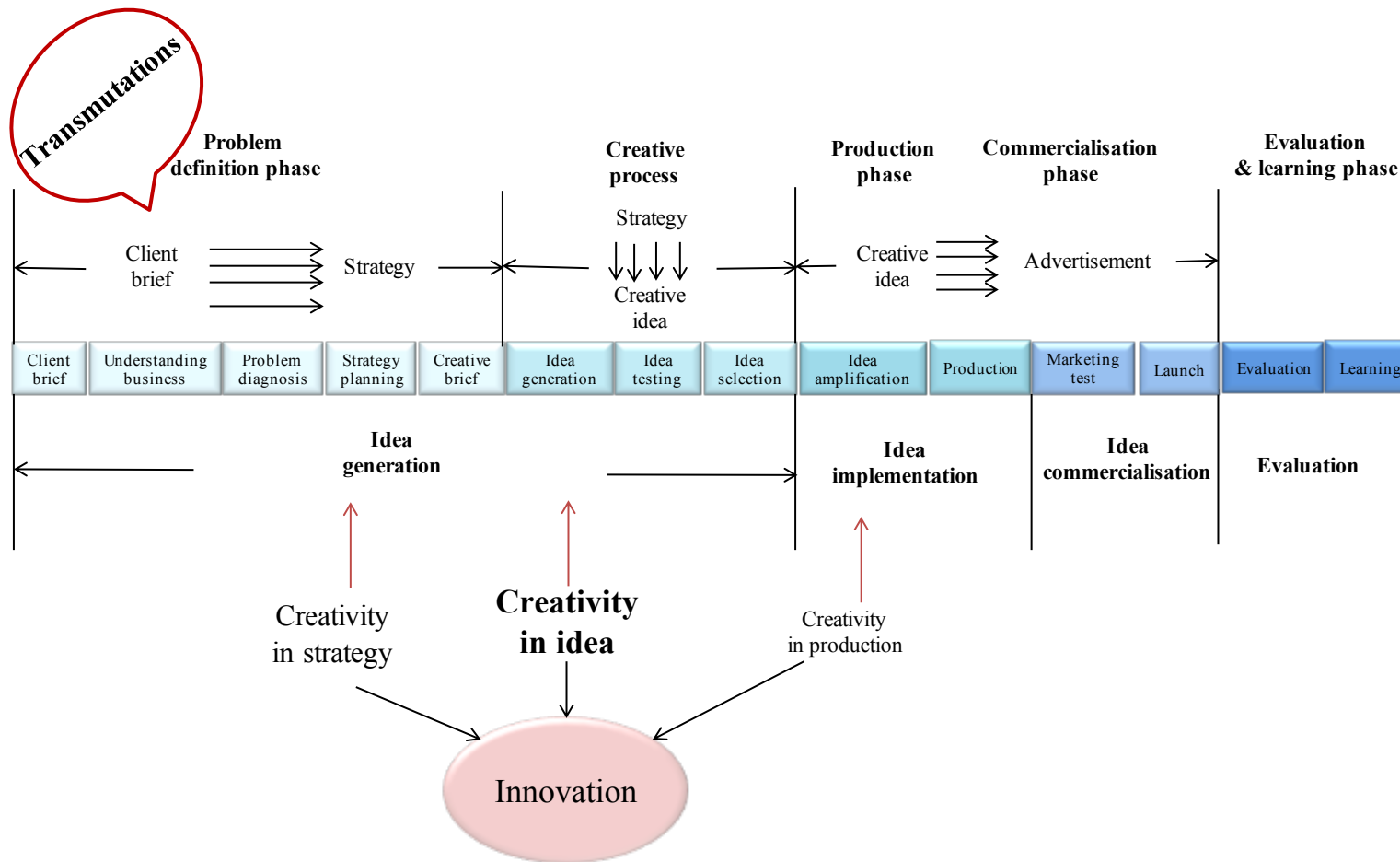
Then, the second transmutation is about transmuting the creative strategy into creative ideas. Compared with the creative idea, the creative strategy is much more abstract and obscure. Therefore, here, the transmutation is to transmute the abstract strategy to a feasible creative idea. Then, the final transmutation is about bringing the feasible creative idea into life, transmuting it to a real advertising campaign (artefact). In this transmutation, the related development stages also contribute to the campaign creativity rather than without any adding value in terms of the creativity. By using new ways to embody the idea, the final advertisement could have a much higher degree of creativity when comparing with the one using very normal production approach. A creative idea could end up as a boring advertisement because of the production. A normal idea could end up as an innovative advertisement because of the innovative production approach. Thus, the production phase also has much contribution to the creativity development of the advertising product (campaign). As elucidated by one of the interviewees:

*".....because we are trying push as hard as we can to get the best creating.....it doesn't stop [when] a creative idea is being signed off, you have to all through the production values, a huge part of that process, you could end up doing a beautiful idea, and then if you didn't have a right production partner and the right map, and a lot of care attention detail goes into that, you could end up with a really diluted idea. Because, it hasn't had all these necessary steps to make sure, you got the best director for that, you know, he was the partner for that project, so, the client company, you are pushing them doing everything they can. The [principle] is making sure you have right casting, always always always never being happy with ok, it has to be amazing." (C4, Production Director)*

So, the creativity or the innovativeness of advertisement relies mainly on three different parts of the innovation process: strategy, idea, and production. The idea is not the only one related to the innovativeness of the final advertisement, but it is the most important one as the idea is the core of the advertising solution or the advertisement.

Therefore, the innovation model is displayed in the following figure:

Figure 8.3 The innovation model



Source: Author

Therefore, the above diagram depicts the regular process in every agency. Although in different projects the process should be more or less different, these are the common stages that most campaigns go through. In addition, the process tends to vary in detail with different clients.

#### **8.4.2 The involvement of media agency**

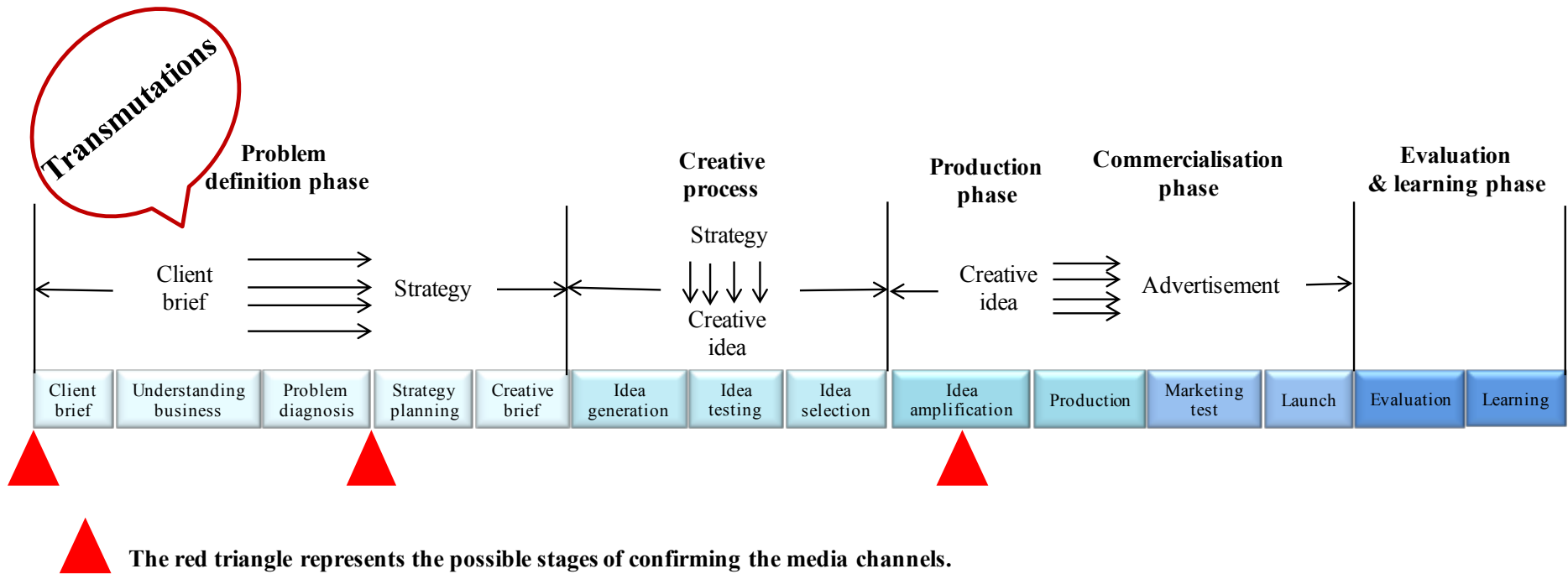
As mentioned above, the timing of agencies and clients confirm or discuss the media differs in different projects. There are three different situations. The first situation is that the client has specific requirements of what types of media channels that they intend to use. Under such condition, the whole project serves for the media and the creative idea is developed to match the media. With the growing use of advanced technology, an increasing number of projects begin with confirmed media channels. Technology development results in new media channels, and some clients want to try and seize the opportunity of being the pioneer of using these new media channels.

In the second situation, clients have their own media agency and they bring the media agency into the process at an early stage or from the beginning of the process. Under this condition, the media may need to be confirmed in the first transmutation phase, before the creative process.

In the third situation, idea develops at first, and media channels are selected to amplify the core idea. Although with the trend of digitalisation, many changes in the media channels are confirmed, most advertising campaigns are still guided by the idea. Thus, the idea is developed at first, then the media are selected. In addition, most interviewees agreed that in order to create the most innovative and effective campaign, the campaign should lead by idea rather than media. Media is the tool to realise the value of the idea. As stated by one of the interviewees:

*“So, we would share ideas early with the media agency. Sometimes, before the first creative presentation, we would have a meeting with the media agency, just to give them a sense of what we are thinking of. It very much depends on the client. So, some clients would choose the media agency at the same time of us, and then, we work very closely together. Others, the media agency may have briefed in advance, we know the planners’ felling. So, the best way to work is we are briefed together, we have discussions and we share collective ambition for the starting kind of media model.”*  
(C4, Strategy Director)

**Figure 8.4 The stages of confirming the media channels**



Source: Author

## **8.5 Co-creation**

Unlike most manufacturing firms, KIBS firms are characterised by their co-production with their clients, which means that without the involvement of client, KIBS firms are difficult to propose an effective solution for their client. Therefore, in KIBS firms, the client involvement in the solution development process is necessary in developing creative and effective service solutions. The difference is in their degree of involvement and how they get involved in the process. Due to the difference of manufacturing and service products and the peculiarity of KIBS services, identifying how clients get involved in the process and how they contribute to shaping the innovation process is far important in developing new service solutions for clients.

Although co-creation has become a buzz word and many researchers are highlighting its importance, the term co-creation remains obscure to many people. Some people treat it as the act where one company co-generates the innovative ideas with their customers, while others think it represents an active collaboration attitude, and the degree varies stage to stage. To some extent, the term co-creation is being misused owing to the fuzzy nature of the term. Therefore, this thesis defines what is meant by co-creation: it involves various degrees of active involvement of customers in the upstream activities in the innovation process, such as creation/ideation, design, elaboration, production, and the like, to create something new together. Although co-creation has been discussed a lot, when placing it into specific stage to examine whether in practice, KIBS firms are implementing the co-creation strategy and how their clients co-create with agency still remain unknown. Therefore, the following section is to delineate how clients get involved in the innovation process by discussing the activities performed and the roles played by them and the interaction approaches used in the process as well as advertising managers' perceptions of co-creation.

### **8.5.1 Managers' perception of reasons for co-creation**

In terms of the perception of co-creation, interview respondents were unanimous that value co-creation between agencies and clients involves the aggregation of different types of expertise. Clients have a better knowledge of their own products or services and their culture, while agencies are expert at creativity and have abundant experience of creating innovative advertising campaigns. No one is good at everything; co-creation

is inclined to generate more effective services. The following two interviewee responses delineate the importance of co-creating with clients:

*“Because the client has a lot of information about their business, there is much more information we never know.....if there is a political problem, they know all that. So, we bring knowledge on board to help them solve the problem.” (C4, Creative Partner)*

*“I think as an agency, you obviously never understand their business to the same level of detail of the actual clients do, because they are working at it every single day. But we do our best to understand their businesses, because obviously what we are doing could hopefully have quite big possible impacts on the overall business. So, it’s important we understand the context of the work we do.....” (C21, Managing Director)*

Another reason that the client needs the help of agency is because they are doing their business every day and are too familiar with their own products or services to have a fresh eye on their business. Consequently, they need someone from outside to help them solve their problems in a fresh and distinctive way. In the process, due to the difference of their expertise, agencies and clients have separate responsibilities. Only by having a clear understanding about their own responsibilities in different stages, can they maximise the effects of their collaboration. The following interviewee’s perspective can illustrate it:

*“Within that coming together...yeah, we’d be the voice of change, so we are the people that come in and looking at this with fresh eyes. They got the knowledge, so, we can’t expect to be knowledgeable about every single client. And then, they work there every day. But sometimes, when you work every day and you get very close to things, you can’t see the problem. You know there is a problem, but you can’t see the problem, therefore, you can’t see how it’s affected. Therefore, afterwards, we are going and say, actually, you think it’s this, but actually, it’s not, it’s that.” (C3, Creative Director)*

Additionally, involving the client earlier and keeping them tight in the process are highly likely to make them feel easier in the aspect of understanding the creative idea developed by the agency. This is partly consistent with the view of Matthing et al. (2004) and Sundbo and Toivonen (2011) who suggest that involving customers early and intensively tends to reduce the risk of being imitated and transcended by competitors and facilitate learning between the service provider and customers. Since the client team invests their time and knowledge in the process (idea), they tend to feel as a part of the idea. By collaborating with their agency, they are able to keep track of the project

process, absorb new information from the client and speed up the project process. The following is a relevant quotation:

*“I think it's critical. Because we don't know as much about their businesses as they do, and we don't know some sort of opportunities, challenges that they have, so, bringing them in sooner and for longer, I think it's very important. .... it's sort of having interaction here, and it spends a lot of time to get here then, sign things .... and the result is that you actually do a lot of work, if it's wrong, it's a lot of wasted time and resources.....So, I am a usual advocate of getting them into the process sooner and keep them tight. Because also, they get, they invest in the idea.”*  
(C19, Head of Strategy)

On one hand, it is highly likely that the client can receive more creative service solutions from advertising agencies; on the other hand, the collaboration between the agency and the client may induce some conflicts due to the different types of thinking styles. In terms of this paradox, the strategy that the agency uses to solve it is by involving clients early in the process to let them feel as a part of developing the creative idea. Letting the client feel as a part of the process tends to make them more understand the ideas developed by the agency. Consequently, in a sense, the collaboration between the agency and the client in the early stages sets the keynote of the project working environment.

The decision to co-create or not is partly associated with the corporate relationship and business development culture. Some companies may involve their clients, as far as they can, and treat their clients as business partners rather than customers. In contrast, some other companies may focus more on their own businesses and let their clients take over everything related to the new service solution development. Therefore, before a project begins, there is a two-way pitching process. The clients will select the agency which matches their business development culture, in the meanwhile, the agency will also select the clients which match their corporate culture. Therefore, a two-way pitching process exists before a project begins.

### **8.5.2 The importance of the timing of client involvement**

Co-creation varies from the activities involved in different stages of the new service development process. Having a clear process assists clients in having a better understanding of the activities happening, the people involved, and the best possible interaction approaches used in the process. In addition, this links to the timing of client



involvement. Interviewees argued that if the client is involved in the stages which they do not need to collaborate, it is likely to have negative effects on the effectiveness of the service, for instance, limiting the creativity development. Moreover, putting too much input or involvement at the wrong time may result in misunderstanding between agencies and clients, which may influence the development of their relationship. Therefore, the timing of collaboration plays an important role in developing a differentiated and superior service and shows the importance of clients in influencing the development of the creativity of the service. In a sense, the timing of collaboration signifies the importance of the related stages. The following are some quotations of the importance of the timing of collaboration:

“They kind of do, they absolutely do need to work with them as a team. Because it doesn’t work if you just sort of separate. But the point is when you do that, that’s important.” (C10, Chief Creative Officer)

*“So, it’s all about defining the process, how outlining, which point people need to be brought in. And what needs to happen in which stage.” (C4, Managing Director)*

*“At all stages in the process, you want people to be involved in the right way. Right of the start.....I mean, it’s my job, but they are involved. And in the same way, when the creative people are having ideas, I get involved in that and help them. In terms of collaboration, we are very collaborative internally. But I think sometimes, you need to think about when is the good time to collaborate with your client, when is the good time to stay to ourselves.....” (C25, Planning Director)*

After identifying the timing of collaboration, the next important thing is about identifying the level of collaboration. In some stages, the agency may require more intense collaboration from the clients, while in other stages, the agency may just need them give their suggestions and feedback. Putting too much collaboration effort at the wrong time is a waste of time and money. Project members from the agency-side and the client-side are busy with their day-to-day tasks and most people are responsible for several projects at the same time. Consequently, time is very important for them. Maybe both the project members from the agency-side and the client side realise the powerful effects and importance of close collaboration, but once they do not get a satisfactory result from the collaboration, their collaboration willingness may also diminish. In the long-term, this may influence the way they work with each other, the service effectiveness that they can achieve and their relationship development. Conversely, if

clients get involved in the right stage, at the right point, and contribute the right level of collaboration, there will be a wide range of benefits which is not limited to increasing the effectiveness of the service. In the short term, the service created is likely to have a high level of creativity, increasing the effectiveness. Due to the superior result of the service solution, both agencies and clients tend to maintain their collaboration approaches and relationship, which creates a virtuous circle, and in the long-term, strengthens their relationship.

### **8.5.3 The participants involved in different stages**

Knowing the timing and level of collaboration is beneficial to the collaboration process, yet without right participants, it would be hard to achieve success. In order to develop a successful service with the client, assigning the right project members in different stages is far important, both the project members from the agency-side and the client-side. Before discussing who should be involved in different stages, it is necessary to have an understanding of different specialists in advertising agencies, or different departments.

### **8.5.4 The discussion of four departments**

In advertising firms, there are a wide range of departments supporting the business development: account department, creative department, planning or research department, production department, finance department, media department, digital services department, etc. The account<sup>17</sup> department, creative department, planning department and production department are the primary departments influencing the effects of the service product. Therefore, having an understanding of the responsibility of these four departments is helpful for us to have a deep understanding of where the members in different departments should get involved.

#### **8.5.4.1 Account department**

The employees in account department are called account handlers. The account department represents the “voice of the agency”, is responsible to manage the client relationship and keeps the client happy. They are almost involved in every stage in the process, and are the first impression that the client gets from the agency. In the

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<sup>17</sup> This is different from accounting department. This department deals with particular accounts.

development process, they have to manage every project member's time, all expenses, and the company resources and make sure the project is profitable to the agency. In some agencies, they act as the bridge between the client and the agency as they articulate what the client wants from the agency, then pass the voice of the agency to the client. Consequently, the employees in the account department are good at communication. In addition, they need to organise meetings with clients, communicate with them, and make sure everything runs as it should be, everyone in the right place, and every single activity happens on time and on budget. The following quotations illustrate the function of account department:

*“Basically, the role of account management department is to lead the client throughout the process. So, rarely, it's kind of client relationship. So, we are involved in every stage of the process. So, we would be the first impression that the client gets from the agency, we would go and meet the client, we would take their brief. And then, we work with the planning department to pull the client brief into a creative brief. And we then manage resources in the agency. So, we will help to decide who we need to best service the client project. So, if it's a shopper project, or if it's TV brief..... we'll be the kind of point of contact to really understand what the client needs and then work with different departments in the agency to pull a team together to service that. And quite often, for big company, like us, we have on-going relationships with clients, so rather than working on a purely project to project bases (so as some smaller companies do). So, our client would pay retainer fee each month or each year to secure certain resource, particular in account management, make sure they have any on-going requests throughout the year. They have a team here ready waiting to receive their requests. So, that's kind of one aspect of it, it's kind of making sure you got the right resource for the client. And it's really.....sometimes the account manager role is similar to the project manager role in a sense that you take the client brief, you brief it to the creative department, you've been involved in internal reviews with the creative team, and the account management will spare ahead the presentation back to the client and say, here is our suggested solution” (C10, Account Director)*

*“so, account handlers are the voice of the agency. They communicate with the client, they articulate what the client wants to create, then creatives present to account handlers through, so, they are the voice of the agency, they are the communication of the business. So, they need to be really articulate and very good, taking a means back to the client, pass it to the creatives, manage client expectations.....” (C5, Creative Director)*

## **A different approach of how to design the project team**

In most advertising companies, the account handlers can be regarded as the intermediaries between agencies and clients as they represent their company to contact with their clients. However, not all the interviewed companies work like this way. One of the interviewed companies does not have the account department, but they do have a separate department managing the task of the account handlers in other companies. Their account handlers do not act as the intermediaries between agencies and clients: passing information and messages between agency and client. The company's development strategy and culture is to encourage everyone to contact with the client directly, thus they do not need any intermediary role. According to their perspective, the companies in which the account handlers take the role of transferring information between agency and client tend to lose much information in the transferring process and possibly resulting in misunderstanding between the agency and the client. In their company, their account handlers' responsibility is to make sure everything happens as it should be, everyone gets involved in the right place and everything happens on time and on project budget. Their role is very much like an idealised mother of a family, holding everything together and making sure everything runs very smoothly, instead of acting as the representatives of the client or the agency.

In this company, project members have much more contacts with the client and the collaboration between them is believed to be a higher level. Clients may find it is easier for them to understand the ideas of their agencies as they have the direct communications with the project members who require the communication rather than letting account handlers transfer their messages. Through working in this way, the relationship between the agency and the client tends to be more collaborative as the people in the entire project share more information so that every team member has comprehensive understanding of the project. The following is a quotation from one of the employees in that company:

*"But [A special name] is probably one of the most important roles here because they are responsible for making sure that everything happens as it should. So, they make sure everyone is in the right place, they make sure everything happens on time and on budget. They are responsible for creating the environment in which really great strategy, and really great creative can be bought by the client. So, they make sure that everything runs like clockwork and they pre-empt potential problems, they kind of see*

*with the eyes of the back of the head of the things we should worry about. they really hold everything together and make sure everything runs very smoothly. They are more than an account manager. Account managers are the worst.....kind of message passer, like the Chinese whispers. Where our people keep us honest and keep everything happening the way they should do.” (C4, Strategy Director)*

#### **8.5.4.2 Planning department**

The planning department or the research department or the strategy department represents the “voice of the consumer”. The responsible of the strategy department is to provide a clear direction for the creative people to create the work. They need to propose a clear and concise proposition of how the idea should be developed. As illustrated by the following quotation:

*“Planning’s job is to look after the consumer. So, if I say, the client, their interest is themselves, the creatives’ interest is the awards, our interest is the consumer.....the job of planning is to take a complex problem, and simplify it into a single proposition.” (C10, Planning Director)*

#### **8.5.4.3 Creative department**

The creative department is to generate the innovative ideas, which is the cornerstone of the agency and is primarily constituted by copy writers and art designers. The creative ideas developed from creative professionals are based on the creative brief. As described by one of the interviewees:

*“When it comes to all this, it’s written in a brief, this brief basically, the creative brief should almost solve their problem. And our job, creatives out there is to dramatise that proposition.” (C5, Creative Director)*

#### **8.5.4.4 Production department**

The last important department is the production department. This is the place in which ideas are developed into real products. The above three departments are the necessities in agencies, while the production department only appears in some companies, which means that the production job is outsourced to other external organisations. The responsibility of the production department is to develop the ideas into real advertising products and to contact with external production companies.

### 8.5.5 The structure of project team

In big advertising companies, for retained clients, they have a fixed team in the advertising companies, constituted by account handlers and strategists. This means that all the projects that the client gives to the advertising company, these account handlers and strategists in the fixed team take the responsibility of dealing with the client problem. In terms of the creative teams used to develop innovative advertising ideas, it tends to be changed every time to keep the freshness of generated advertising ideas. However, in small advertising companies, due to the resource limitation, the firms may have to use the same project team in different projects. The following quotation is the description from an interviewee in big companies:

*“When you think about how we service our client is, if this is the client here, they have a team of people within the agency, most clients have a consistent team of people, so, they have a planner, they have a creative director, they have an account person, or an account team, those people don’t tend to change. The creative teams work on the business might change time to time, so you keep your ideas on fresh.....” (C21, Managing Director)*

The following section will display how agencies and clients co-create with each other in the aspects of the involved activities performed and roles played by clients and agencies and the involved people and the utilised interaction approaches in each stage as well as the timing and the co-creation intensity.

### 8.6 How clients engage in the innovation process

While customers are involved in most stages, their involvement in some stages is more important than others. Among the phases of the innovation process developed above, most interviewed firms treated the problem definition phase as one of the most important phases. They said that in the problem definition phase, advertising companies need to collect information of the project, diagnose the project problem and develop creative briefing to guide the generation of creative ideas. If the advertising firm does not have a proper understanding of the client business, it is difficult for them to identify the right business problem. If the firm does not identify the right problem, the strategy developed will not be able to solve the project problem. Therefore, the problem diagnosis phase plays an important role in the new service development process. As one of the respondents noted:

*“The most important stage is at the very beginning because you need to get the foundations of the business. If you don’t get the information right, you don’t get the brief right. Then you get no chance to produce satisfied advertising. You need to identify the client’s business properly, get the right consumer inside, and understand what your product is, what it does, and what it stands for.” (C11, Executive Creative Director)*

Although the importance of these development stages varies, whether the co-creation with customers displays the same pattern (for example, the co-creation with customers in the first phase is more important than other phases.) requires more exploration. Therefore, on the basis of the process conceptualised above, the following section will display how agencies and clients collaborate with each other.

### **8.6.1 Co-creation in the problem definition phase**

The problem definition phase encompasses 5 stages, including client brief, understanding client business, problem diagnosis, strategy planning, and creative briefing. The main task of this phase is to diagnose the advertising problem or the client needs, and develop service development strategy. According to the respondents’ perspective, this phase plays a crucial role in determining the success of the new service development as it sets the direction of how to develop the new service for their clients.

#### **8.6.1.1 The people involved in the first three stages**

The people primarily involved in this stage are the directors from both the agency side and the client side. In the agency side, it is usually the account directors or managers of the account department and the planning department, while on the client side, it is the directors or managers in the marketing department and maybe also include the decision makers from other departments, such as the product development department, design department etc., indicating that the responsibility is not limited to the marketing department. Since this is the first phase of the new service development process, the involvement of directors from different departments are beneficial to confirm the key issues, such as the budget, purposes, development directions, etc.

*“A mixture of people from the client-side and people in the agency side, senior member of the agency, the project manager, the strategists, the planner. They should be involved.” (C13, Creative Director)*

Except the involvement of directors from different departments, the project members take the main responsibility are the account handlers and strategists (strategy planners/researchers).

#### ***8.6.1.2 The activities performed by the agency and the client in the understanding client business stage***

First, in the stage of understanding client businesses, agencies need to obtain as much information as they can from their clients (because no one is better than the client in understanding their business.). Therefore, at this stage, clients elucidate their business to the agency, such as the knowledge about their businesses, their products or services, their industry, their market, their competitors, etc. In this stage, the client takes the leading role since at this point, the agency only has limited information and understanding of the client business, meaning that the main task of the agency is to absorb as much as they can from the client. Meanwhile, the agency does some market research to further solve what they feel confused about. Then, the agency integrates all the information they have and distil the most important information.

#### ***8.6.1.3 The activities performed by the agency and the client in the problem diagnosis stage***

After the agency has a comprehensive understanding of the client business, then it is time for them to discuss the project problems with the client. In some projects, clients are very clear what their problems are, whereas in some other projects, clients may find it is difficult to diagnose the problem by themselves, thereby needing the help of their agencies. In the latter situation, the client needs to act as a co-diagnoser to co-diagnose the problem or the advertising gap with their agency. Although we divide the process into different stages, the involved activities may not occur in a sequential way, indicating that the tasks of understanding client business and diagnosing problems may take place together.

### **Different problem diagnosis patterns**

Problem diagnosing is a significant stage in the process. Without identifying the right problem, the solution working out for the project could not succeed, thereby reflecting the necessity of the client involvement. The working mode in this stage differs from



client to client, depending on the size and the importance of the project as well as the corporate culture of the client. However, whether the client and the size of the project are big or not, the agency tends to have face-to-face interaction as much as possible to immerse them into the client business. In this stage, most of the time clients act as the information provider and do not need to put much effort in identifying the problem. This does not mean it is a one-way communication channel. Providing information to the agency is the base of their responsibility; assessing the ideas provided by the agency and discussing and providing suggestions and feedback to the agency are their core duty. Identifying the right problem lays the foundation for the service success since the following activities, such as the strategy development, the idea generation and the idea production, all rely on the nature of the problem. Without identifying the right problem, the following work would be developed in a wrong route. Hence, clients should take an active role in this stage and work very closely with the agency. As described by two respondents:

*“.....the quality of the solution is directly related to the quality of the problem. Great problems let you get great solutions. There is always a problem, maybe a really scary problem...it might also be a problem of .....so, I said we have conversations very very early stages with one of supermarket discounters. They have a media business problem; their business is fantastic shaped. But I think everybody is sort of wondering whether their great is gonna to slow down, where the next great comes from.....there is always a problem to solve. I would generally suggest, the agencies like us, are really brilliant when we got good problem and are really quite lame when we got average problems, or the roll problem. So, I love that.” (C20, Head of Strategy)*

*“And we have a process for this, which is an innovation process. And actually, where it starts doing is we would have a theme day. On that theme day, it might be around diabetes, might be around hypertension, might be around heart attacks. And what we do is our strategists will kind of work with experts to find out that theme a way which innovative gets started, first become experts, we have a theme day. Theme day is introducing the wide team to this particular problem, and actually, what we do is brainstorm the problem. So, we don't brainstorm the solution, we brainstorm the problem.....because when you have a problem, the media problem is not the real problem, you have to go back a few steps.....to brainstorm the problem. It kind of understands that problem is a function of a few other things. That allows us to try to get the whole loop and the thing we need to solve. And that being ... successful for us about highlighting the things we like to have the biggest empowered.” (C16, Creative Director)*

When diagnosing the problem, both written documents transferring information between service supplier and their clients and face-to-face communication are required. Written documents are easy to transfer, and store and can help service suppliers have a general understanding of the situation. However, face-to-face communication enables service suppliers to dig more in depth in their client business and acquire the tacit knowledge stored in their client employees' mind. According to advertising managers' perspective, face-to-face communication is more important in their communication process since they think the most important knowledge and information is difficult to write in documents, which refers to the tacit knowledge. In order to acquire such knowledge, face-to-face or verbal communication is necessary. Moreover, since it is the beginning of the new service development process, face-to-face interaction not only enables the service supplier to acquire tacit knowledge from clients, but also is beneficial to the relationship development. Face-to-face interaction at the beginning of the process provides an opportunity for them to get to know each other. Sometimes, the project derives from a retained client, but the client project team and the supplier project team are different. Thus, letting them have some face-to-face communication is helpful for them to understand each other's working style and then decides how to cooperate and how to develop the solution. The following is an example of how the supplier and the client communicate:

*“Most would be transferred in discussion and they would supply written papers. But we are in the communication business. Our skills and our art is to be able to talk to people, so we would sit down and discuss with the client and establish what is the problem. Once you established what the problem is, you ask more questions about that. So, it depends on what the problem is. If it's a supermarket, the sales is declining, so, we would sit down with the client and say, ok, why do you think sales are not as good as they are. We would ask lots of questions about: are your products good or better than your competitor? are your pricings correct? are your competitors doing what activity? .....so, you have to have all these questions and eventually, some would come out.....” (C13, Creative Director)*

However, the problem diagnosis stage does not always mean a problem is waiting to be found. It may refer to a new opportunity, new business development plan or a new communication proposal. Sometimes, before clients go to meet their agencies, they may have already checked their advertising problem and think they understand where their problem is. However, their understanding is not always correct. For example,

sometimes, what clients recognised as the problem may be demonstrated as not the real problem. This may be because of their incorrect perception of their consumer, their market, or their businesses. Sometimes, it is because the client is busy with their own business every day, which makes it difficult for them to stay objective to diagnose their problems. Therefore, this partly reflects the importance of agencies since they are able to diagnose the client problem from a distinctive angle and to treat the problem in a more objective attitude. As illustrated by the following quotation:

*“And then find out whether the world thinks that problem is the problem. You know, sometimes, the client thinks they are old fashioned, as I mentioned before, the problem might be the taste is wrong, or the colour is wrong, or they haven’t got something out right and not sure they didn’t really understand that. So, sometimes, the customers would agree there is an issue, it might be. Actually, it’s a retail brand, the issue is .....they are driving people out of their store, or the store environment is not as good as it could be, even though they sell great things-when you go there, the store doesn’t feel great. So, normally, the client does pretty much know where what’s wrong.....” (C3, Creative Director)*

Therefore, in some projects, clients may tell the agency that what their problem is and how they expect the agency does, yet the agency also needs to do research to check whether what their clients tell them is right or wrong. Agencies are employed by their clients, yet this does not mean agencies only do what their clients tell them. They are the experts of advertising issues, which means they have their own judgement and interrogating process of their clients’ understanding of advertising problems. For examples, the following quotation demonstrates the importance of agency role in diagnosing client problem:

*“We will sit down with them. You would know something before the client came in. You would sit down.....one of the key things to talk about why we are here, why we are talking about this, what is the problem, it could be for sales, could be for section, for not enough changing behavior.....and the client would explain you why this is the problem, then you might decide you want to go and do some research to really understand what the issue is, that’s a big stage of self doing research.” (C13, Creative Director)*

Or sometimes, clients are quite good at diagnosing their problems and know what their problems are. Under such condition, in the problem diagnosis stage, what the agency needs to do is to understand the client problem rather than diagnosing the problem.

*“Sometimes, it depends. Some of the very very sophisticated clients, they know all that (their problem), for example, [A big sportt brand] is not*

*really looking for help with that (helping them diagnose advertising problem). Because they know themselves, they are so smart. But another company, they might be lost, who are we, what do we mean. It's different."*  
(C18, Creative Director)

Therefore, in the problem diagnosis stage, there are different types of problem diagnosing pattern. Under different conditions, the way the supplier and the client used to diagnose the problem should differ from each other. Following the stage of problem diagnose, the next stage is to develop the appropriate strategy. Strategy plays a paramount role in the whole process since it acts as the guidelines of the whole project. The function of strategy is to shed light on the routes of how to develop creative ideas. The information gleaned and distilled in the information collection stage lays the foundation of developing effective strategy.

#### ***8.6.1.4 The strategy planning stage***

Following the stage of problem diagnose, the next stage is to develop the appropriate strategy. Strategy plays a paramount role in the whole process since it acts as the guidance of the whole project. The function of strategy is to shed light on the routes of how to develop creative ideas.

#### ***8.6.1.5 The people involved in the strategy planning stage from the agency side***

The people involved in this stage are the account handlers and strategists, and sometimes, with creatives. Strategists have the responsibility of proposing the appropriate strategy. Here, the strategists include the strategy director and the employees in the strategy department. Sometimes, the leadership team, the strategy director, the account director, and the creative director work together to come up with the strategy, at least confirm the direction or the route of the strategy, and then, let the senior or the junior strategists further work it in detail. Usually, the creative people do not need to get involved in this stage, or at most, the strategy director and/or the account director have some brief discussions with the creative director. Sometimes, before the strategy is presented to the client, the strategists and the account handlers may have an informal discussion with the creative team or the creative director to ensure the strategy proposed is feasible for them to develop ideas. Therefore, in such situation, the involvement of creatives is to assess the feasibility of the strategy. As described by one of the interviewees:

*“If we do a pitch, for instance, on a new piece of business, but probably be a room of five or six or seven of us, account handling, planning and creative directors throwing ideas around before we get the strategy. Then, the planners will go away and write three strategies. You have further discussions about it, then you get one.” (C7, Executive Creative Director)*

In the client-side, the people involved in this stage may be limited to the marketing department. Although the cooperation from other departments in the client company is crucial, the other departments have their own tasks to undertake. The cooperation from them in the information collection phase for understanding their business and diagnosing the project problem is usually sufficient to enable the agency to have a comprehensive understanding of their business. Indeed, before the problem is identified, the agency has collected a wide range and large amount of information. The difficulty is how to select the useful information out from the information obtained from the client and other external sources. The following quotation explains who should be involved in the strategy planning stage:

*“Well, there is to the teams. because we probably work as.....like the creative director and the head of strategists done it, coming up with that strategy, and then.....we talk to the creative teams, so, the creative teams come up with the work based on the strategy. There might be more of a leadership team that comes up with the strategy process, then, we need to brief it out to the teams. So, but then, we would have this collective clear strategy of how we are going to a project.....It’s probably not so much the creative teams. It’s probably more of the creative directors, strategy director, you know, that’s the leadership sort of team, they come up with the strategy. I mean it’s not actually a hard and fast rule, you know, sometimes, we sit with the creative teams and come up with the strategy together. It came in that way. But the responsibility lies with the leadership team to come up with the strategy and brief into the teams. But sometimes, either the project is small or it’s just the way works, because it’s so big, actually, we all sit as the team.....strategy can be born from the whole of the team coming up with it, or the junior copy writer comes up with it. I mean, sometimes, you work so collectively, the ideas for both strategy and creative can come from any way, from any department. And we are really open to that.” (C4, Creative Officer)*

#### **8.6.1.6 The activities performed by the agency and the client in the strategy planning stage**

Apparently, the client involvement plays a crucial role in developing an effective strategy, yet in terms of whether they need to co-develop the strategy (Here, co-develop refers to that they need to sit together to develop the strategy together.), the opportunity

is rather rare. The regular way of working the strategy is that at first, the agency and the client have some discussions together with the aim of exchanging ideas and share information. Then, the agency goes away and synthesises the information that they obtained to develop the strategy. Interviewees claimed that the agency and the client tends to not sit together to co-develop the strategy is because the strategy team needs some space to think about how they develop the strategy in a creative and original way. According to the interviewees' perspective, the inputs from the client are critical in developing a creative and effective strategy, yet without having the time to digest and synthesis the information that they have, they would find it difficult to develop a creative strategy and feel confused. Having sufficient information is important, yet the more important thing is how you relate the discrete information together and how you refine the information you have. Otherwise, too much unrelated and useless information is likely to make the strategists feel confused and stifle their creativity. Consequently, clients should leave some space for the agency to absorb the information that they have and give some time for them to think creatively. Co-developing the strategy is kind of staying on the point of co-selecting the useful information and co-developing the rough idea rather than coming up with the strategy proposition together. As illustrated by some interviewees:

*“Normally, our strategy department will go away and work on the strategy and come back, present to the client, get the input from the client once we have time to think. Because quite often if you get client input as you move through the journey, the things can get you like confusing. Because the reason that the client comes to you is for your point of view. If you don't give your planners enough time to really think the properties of the problem themselves, and come back the solution, it can get very confusing.”*  
(C10, Account Director)

*“So, again the strategy is developed here [in the agency]. So, we would listen to all of our client problems, then we would develop the strategy internally, then, we would go back to the client and say: this is what we think is the solution to your strategic problems.....Well, we will learn as much as we can....we would have many meetings with clients...got a lot of information, but the actually the development of strategy, that would be done here, then we talk it back to the client for approval. Because, obviously, the client is not going to buy a strategy that they haven't been approved.”* (C4, Creative Partner)

However, there is “no one size fits all” approach. Sometimes, when clients have a lot of stakeholders or they want to work in a more collaborative way, they may choose to have

a whole day session of workshop with their agencies to co-develop the possible avenues of developing the creative strategy. Therefore, on that day or the workshop, the participants, regardless of the project members from the agency-side or from the client-side, put forward the ideas that they have and discuss these ideas with other people, and then refine these ideas or develop some new ideas. At the end of that day or the workshop, one idea should have everybody's agreement. The idea derived from such workshops has a much higher collaboration level from the client. But, the possibility of developing the strategy through this way is quite limited. The following quotation can illustrate this:

*“Sometimes, you might...there are exceptions where clients have lots lots of stakeholders, so, maybe sometimes, the company is quite complex, you have multiple stakeholders in the client side that need to buy into a strategy. So, sometimes you might run things on a collaborative, like a workshop, for example, when you might run a whole day long session where you explore together different avenues, different ways into the problem. And you would agree on the output. That does happen as well. But I would say that only happens like 20 percent the cases. ....And often there is a lot of data and information to go through. Sometimes the client will come to us and say we have this information then you.....work with, you know, dozens of clients, you got tons of expertise around different consumers, segments. For example, if you want to talk to revenues, we got banks and banks research. So sometimes they come to us and saying we want you to tap into your knowledge, so come back to us with what you think it is we should do.” (C10, Account Director)*

#### **8.6.1.7 The role of clients in the strategy planning stage**

Therefore, in most cases, clients do not need to sit together with agencies to co-generate the strategy, yet do work collectively with agencies. Therefore, they can also be regarded as strategy co-developer. In light of the perspective of the agency, developing strategy is the responsibility of the agency rather than the client, and co-generating the strategy with clients is not the best way to work it out. Although sometimes, the agency may need to co-generate the strategy with the client, before the stage, the agency should have done something to digest the information that they have.

#### **8.6.1.8 The role of strategists or planner**

The idea generated should be based on the strategy developed by planners or strategists. The role of strategy is to set up the direction for the creative teams, indicating that the quality of the idea is partly decided by the strategy developed by planners or strategists,

and reflecting the importance of campaign strategy cannot be neglected. The strategy and the creative process have to work hand in hand and have a symbiotic relationship. As described by one of the interviewees:

*“The planners’ job is to work out.....what the key point of difference is, so what’s the differentiating part [between different brands]. So, these guys work out the strategy.....And the strategy and creative process work hand in hand. So.....it’s a symbiotic relationship between these two.” (C5, Creative Director)*

#### **8.6.1.9 The creative brief stage**

In a sense, strategy is developed to show to the client, while creative brief is developed for the creative professionals (copy writer and art designer). Generally, the language used differs in shaping the strategy and in developing the creative brief. The creative brief is used as the guidance to develop creative ideas. As the purpose is to give specific requirements of how to develop ideas to the creative professionals, client involvement is not necessary. However, sometimes, clients also need to check the creative brief before it is used to develop creative ideas.

Generally, strategists undertake the responsibility of writing the creative brief, but sometimes, account handlers undertake the responsibility, hence both strategists and account handlers are the primary members of this stage. However, due to the essence of developing creativity brief – to provide guidance for the creatives, the creative teams may need to be involved in this stage, at least, the team writing the brief needs to have some conversations with them to ensure that the creatives feel right with how to develop the brief before sending the accomplished creative brief to the creative teams. This indicates that the strategists or the account handlers need to take the creatives’ opinions into account when writing the creative brief to get the best proposition. The following quotations depict how to develop creative brief:

*“the strategists write the brief. But they will write it with the creatives, or sit with the creatives. This is the way, the direction the briefs going in. so, this doesn’t come with a completely surprise.” (C13, Creative Director)*

*“Yeah, creative directors work closely, quite a lot of the time with the planning department on getting down the strategy, but generally, it’s the planning department will say, OK, let me go away with it. Creative will say, yeah, I can work with that, or that would be a great idea, or that feels like it’s right, it’s truthful, or it feels like you could get a great idea about*



*that. Because all you want to do, as the creatives, all you want to do, is the planner to show you the proposition, and you think, yeah, I can really do something with that. You will collaborate with the planning department and the account handlers while they write the brief, a lot of more to make sure that is the best proposition can be to go into your creativity.” (C7, Executive Creative Director)*

#### **8.6.1.10 The role of client in the problem definition phase**

Based on the above analysis, clients mainly act as the information provider, problem co-diagnoser and strategy co-shaper in the problem definition phase. At the beginning of this phase, the client needs to help their agency understand their business and their project, thus, they need to provide the necessary information to their client. After that, the clients need to co-diagnose the project problem and co-shape the development strategy with their agency.

Up to this point, the strategy has already been confirmed and the first transformation (client brief to strategy or creative brief) of developing the advertising service has accomplished. The project team has gone through the stages of collecting information to understand client business, diagnosing the problem, and developing the creative strategy and creative brief. Almost all the interviewees suggested that they have the most intensive collaboration with clients among these stages. After these stages, the involved people have successfully filtered the information, and selected out the useful one.

### **8.6.2 Co-creation in the creative phase**

The creative phase is the most important part of the process in which the core idea of the developed (advertising) service is generated. As the nature of advertising services, idea is commonly regarded as the core of any campaign. The creativity of the final service is largely dependent on the idea developed in this phase. In the preceding discussions of each stage, we can see that the information the agency keeps has gone through a distillation process to reach the creative process.

#### **8.6.2.1 The involved people in the creative phase**

The creative ideas are generated by the creative teams which are composed of the copywriter and art designer. Except them, the other projects members do not have much involvement in this stage. To generate creative ideas, these creative people need to think

creatively and originally. In some projects, there is just one creative team undertaking the responsibility of generating the creative idea, while in other projects, agency may assign several creative teams to compete with each other to develop the best creative idea. Whether the creative ideas are generated by one creative team or under the competition of several teams, the idea generation responsibility mainly lies in the copywriters and art designers. The following is an example of how firms develop creative ideas:

*“When we set the brief, we may have two or three separate teams in the early stages. So, you’ll kind of see who is working for the best ideas...they compete with each other. But it will very quickly turn into a formal collaboration as well. You know, collaboration is one about collaborating values, is something very keynote brief, talks lots of past about blending. Blending is a way kind of to select the best team to solve that particular problem at particular time. It would talk about how that is orchestrated. And, you know, blending is a case of making sure you got the right people, you can need to help to look.....so, it might be analytics data person, it might be technologists, it might be more of a strategically creative team, it might be visual designer, it might be strategists, it might be media experts. And one of the good things about the agency is the size of this and big spectrum of services, you could haul people in to do those things.” (C16, Creative Director)*

#### **8.6.2.2 The activities performed by the agency and the client in the idea generation stage**

One of the reasons of choosing the advertising agency to develop the service rather than doing the job by themselves is that the agency is the expert at developing the idea which can have significant and long-lasting influence. Put another way, the reason for recruiting the agency is to let them generate the creative ideas for the client, thereby indicating the way of how the agency and the client collaborate in the creative process. In an advertising campaign, the quality of idea is the determinant element in deciding the success of the campaign.

It is obvious that the responsibility of creative teams is to generate creative ideas for every client. Regarding the client involvement in this stage, most interviewees argued that in practice, the cases where their agencies co-develop the creative idea with their clients are very rare. According to these interviewees’ opinions, clients should be excluded from the idea generation process to some extent since the creative people need some space and time to think creatively and originally. Too much client involvement in

the idea generation stage is inclined to stifle the agency creativity. Therefore, based on the empirical data, in order to obtain the best idea, clients should not get involved too much in the process and should leave some space and time to the creative teams to digest and absorb the information and to think creatively. Although the client does not have to involve in the process, when the creative teams have any question or need any help, they need to try their best to help them. In a sense, the client still needs to collaborate with the agency, yet compared with the first innovation phase, the degree declines to a very low degree. As stated by one of the interviewees:

*“Such collaboration is very important to happen before the idea generation stage and not so necessary happening in the idea generation stage. Because the idea is for creativity, for originality. So, it’s better to leave some space for the creative people to do what they want..... And then, you all work together again, to amplify that idea once it is like.....so, there is a draft idea, the, you amplify it. And when you draft the idea, when the creative people draft the idea, they don’t need to work very closely and collaboratively with clients, because they need some space to think originally.....having too many people’s opinions on the original idea, it becomes not a very original idea any more. It becomes a little bit boring. So, it’s to protect the simplicity of an idea, you don’t want to have too many people. So, you have few people.....” (C10, Chief Creative Officer)*

Therefore, in terms of the issue of whether the client gets involved in assisting their agency in generating creative ideas, the answer tends to be no. The client provides their assistance before the creative teams begin to generate the creative ideas. Up to the point of developing creative ideas, it is better to step back and give the agency some space and time to think originally. In addition, the thinking style between the creative teams of the agency and the marketing team of the client is largely different. Assuming that they sat together and co-generated and co-developed the ideas, both would feel that they could not fulfil their potentials and the environment stifled their ability, resulting in a suboptimal or boring ideas developed. Moreover, the essence of advertising is concerned with creativity which depends on the idea developed in the creative process. The client may not understand the ‘*beauty of the raw idea*’ generated by the agency and kill them on the way to further develop them. However, some interviewees also mentioned that in some special cases, advertising firms and clients may need to co-develop the creative ideas together and collaborate very closely. Yet such cases are very rare.

Thus, ideally, what the agency expects their client to do in this stage is giving help when necessary and giving some space and time for them to develop the creative ideas by themselves. To some extent, the more the client is involved in the idea generation stage, the less innovative the final solution is expected to be. Here are some of the relevant quotations illustrating these findings:

*“I don’t think you can ever get clients involved in the creative thing, that just doesn’t work. I don’t think you can get anybody involved in the creative process. I think people can feed into it once the ideas are on the table, anyone can make really good suggestions, what do you think, brilliant.....that’s fine, I think the creative process has to be separate. Because... don’t clients get carve involved in the initial creative process. Again, if you present them some work, they say, that’s great, what if you have monkey on it, somebody created the creative work, genius idea. I mean, I’d be client presentation.....so, that’s sort of collaboration, I think it’s fine. But you really got control it. I just don’t think you can ask clients creative, it’s pointless to ask clients to create things.” (C7, Executive Creative Director)*

*“It’s great to keep the client involved. But you know, we also need time to do our thing. So, we give creatives space to come up with the great ideas, only really involve client when we got a question that we need to answer before we create that idea or once we got the idea, then we involve them all, bring them on board. But, you know, there needs to a little bit space to do the stuff we need to do here.” (C4, Creative Officer)*

#### **8.6.2.3 Different co-creation patterns in the creative phase**

According to the perspective of interviewees, the client should be excluded in developing the creative idea, but this does not mean they are excluded from the phase completely. At least, they need to approve the idea generated and give their feedback to the agency. The above discussion is what the agency expects to happen in the creative process. In practice, there are four different patterns of client involvement in the creative process (Table 8.3).

**Table 8.3 The four different patterns of client involvement in the creative process**

<b>Patterns</b>	<b>Explanations</b>
<b>The first pattern</b>	In the first case where the agency takes over the idea generation responsibility, the agency has the greatest freedom in developing creative ideas and fulfilling their creativity. Some clients prefer giving the greatest freedom to their agency to develop the creative ideas as they do not want to be bothered by discussing the detail of the campaign. Also, after the agency and the client have already built mutual trust relationship, the client tends to give more freedom to the agency in developing innovative ideas. Therefore, how to cooperate is related to the client business development culture and the relationship development phases. In this type of pattern, clients act more like as a document approver.
<b>The second pattern</b>	In the second pattern, agencies lead the idea generation, but clients contribute to the idea development when required and to confirming some key details of the idea. Under this pattern, clients work in a more collaborative way and agencies also have the freedom to fulfil their creativity and develop the creative idea.
<b>The third pattern</b>	In the third pattern, clients play a more active role in the idea generation process and may propose some very creative ideas for their agencies to further develop it. Thus, clients get involved in the idea generation process to a larger extent. There are more discussions and meetings between them to confirm the details of the idea. Sometimes, they may provide some suggestions of how to develop the idea or they may have a specific idea of what types of idea they want their agencies to develop. Thus, they have more requirements in how to develop the idea. Under such pattern, agencies have less freedom in developing the creative idea when compared with the above two.
<b>The fourth pattern</b>	In the fourth pattern, the co-creation between the agency and the client reach to the highest degree as they co-develop the creative idea. Thus, client project team is regarded as the co-creator of the idea generation stage. In this pattern, clients and agencies tend to sit together to discuss the detail of the solution, discuss the drafts of ideas and exchange revising suggestions. During the process, not just agencies develop creative ideas, clients also need to propose some creative ideas and exchange their ideas with agencies to co-develop the final creative idea. Therefore, in this pattern, agencies and clients co-develop the creative idea. However, only in a very small number of projects, clients and agencies co-develop the creative idea. Digital advertising agencies tend to treat their clients as co-creator or involve their clients in the idea generation process more often than traditional advertising agencies.

Source: Author

Among the above four patterns, most traditional advertising companies work in the second and third pattern. In terms of the digital advertising companies, they also work

with their clients more often in second and third patterns, but they have more projects of treating their clients as co-creators when compared with traditional advertising companies. With the trend of digitalisation, digital advertising is occupying an increasingly important role in the advertising industry. Therefore, how to work collaboratively in the idea generation stages may be another development issue in the next decade. However, at least at the moment, advertising companies still take the lead role in generating creative ideas. With too much client involvement in the idea generation stage may stifle agency creativity development, and then result in uncreative ideas.

In terms of how the creative people work together and develop the creative idea, it is usually that the creative people sit together and brainstorm at first, after they come up with the idea development directions, these people may be divided into several groups to develop the draft of creative ideas; after several hours or some days, they sit together again and do presentations. Then, they discuss all the creative ideas and develop some further directions of developing these ideas. The following quotation illustrates one way to develop ideas:

*“What tend to happen is the brief goes in, and they creatively work on it for a couple of hours, then come back and present. Everyone will come in and go away again for a couple of hours...They will do some loose presentations. The presentation might be how this thought, might be lines, might be pictures, and might be a paragraph description. It's quite loose, nothing set in stone.” (C14, Creative Director)*

In conclusion, in most cases, what clients can contribute to the idea generation stage is far limited. They can assist agencies in narrowing down the possible routes of how to develop the creative idea. Nonetheless, the chance of sitting together with their agencies to co-develop creative ideas or taking the responsibility of generating creative ideas is quite rare. Moreover, upon the empirical evidence, co-creating the creative ideas with clients tends to limit the agency creativity capability. Put another way, the more the client gets involved in the stage of developing the creative idea, the less creative of the generated idea tends to be. Thus, ideally, what the agency expects their client to do in this stage is giving help when necessary and giving some space and time for them to develop the creative ideas by themselves.

#### 8.6.2.4 The selection stage

After the agency develops some creative ideas and has some internal meetings, the next activity is about having a formal meeting with their client. During the meeting, the agency presents what ideas they developed and how they think of these ideas. Then, the client gives their opinions about these presented ideas and discuss with the agency to define the way to revise these ideas. The following are some descriptions:

*“Normally, we would give one direction, now, they might be options within that direction. I’d say this is the line we would decide to work with and here is a number of ways we can interpret that line, but in generally, we’ll try to go with one confidence, the direction.....It’s always grand until the client says I will buy that. So, yes, it’s a concept, it’s an idea. And if the client doesn’t like it, and tells what is wrong, then, we’ll be doing another. And this haven’t with the long-term clients, we would normally be one idea. sometimes, with the project clients, we’d go in with more than one idea, because, it’s not a strategic, the relationship is a lot more peripheral.” (C3, Creative Director)*

*“Yes. The creative presentations are often, they can be big meetings. And sometimes, before the presentation, you may have tissue meeting. And the tissue meeting is when you have some ideas that are not quite fully formed. So, they are very very young, very very naive, like the babies, you protect it off. But you don’t know enough about what the client are looking for or where the ideas might go to have a proper presentation, so you often show ideas in their infancy to get the client reaction and input to build on them rather than to buy. So, a creative presentation is about buying a route, a tissue presentation is about let’s work on this together, let’s collaborate, let’s think about how this could change, let’s think about what we need to be true in this idea for it to be a successful one. But those tend not to be workshops. Because workshops are often when you are building a thought together. So workshops could inform the brief, could inform the strategy, but the time you get the creative, generally, it’s more of a presentation, or a tissue session which can be a conversation, discussion of sharing session with lots of boards with images, stimulus.” (C4, Strategy Director)”*

As indicated by the above quotations, in reality, before doing the formal presentation, there is a ‘tissue session’ aiming to narrow down the possible routes to develop the creative idea with the help of clients. During the ‘tissue session’, advertising agencies show some draft creative ideas or some routes of how to further develop the creative ideas to their clients. The aim of the ‘tissue session’ is to get more necessary information from the client and to find out the preference of clients in advertising ideas. Generally, this is a good way to avoid spending too much time on the ideas which cannot be accepted by the client.

The ‘*tissue session*’ is organised by face-to-face meetings. During the ‘*tissue session*’, the agency shows some ideas to the client, then the client assesses these ideas with the knowledge they have and then chooses some to let the agency further develop them. In addition, the client not only screens out the draft ideas that they like, but also gives some suggestions of how to further develop these ideas. As this is a two-way communication session, the agency will not only listen to what the client says, but also argue and discuss with them. The following is an example of how firms conduct ‘*tissue session*’:

*“Then we hold a lot of “tissue” meetings, throughout all of the concepts, we share them at first, get their feedbacks and further develop a couple of routes. Most of the work is generated internally. The clients will have input...Occasionally, the ideas are from clients.....” (C9: Director)*

#### **8.6.2.5 The people involved in the presentation**

Generally, account handlers undertake the responsibility of presenting ideas although the ideas are developed by creative teams. This is because how to present ideas is related to communication skills which account handlers are good at. Creative people are the experts at generating creative ideas, yet tend to not as well as account handlers in the skills of communicating with clients. Having the creativity capability is necessary for agencies, but the communication skill is also critical. Once the agency got the well-developed ideas, the next important thing is about how to communicate with clients, how to present to make them understand these ideas, trust these ideas, and then buy these ideas. Without a good communication skill, the agency would fail to make the client understand and buy the developed ideas. Thus, interviewees suggested that the agency has to assign the people good at communication to present the creative ideas. From here, we can see the effects of division of labour, the importance of different types of skills. Nonetheless, this does not mean the meeting should be organised without the attendance of creative people. Even though the creative people do not need to do the presentation, they also need to attend the meeting as they are the ones generating the presented ideas, indicating that they are the best people to explain the ideas when clients have questions about these ideas. Therefore, the attendance of the creative people is important in the presentation. Though, interviewees also noted that whether the creative people should present in the presentation is not just decided by the agency, but also influenced by the client preference. This indicates that sometimes, clients may ask for



the attendance of the creatives, while in some other times, client may prefer to limit participants to account handlers and strategists. The following quotations illustrate the role of creative people in presentation:

*“I think, we generally, our creative presentations, our creatives will always present because it helps them to build the relationship with the client a little bit, and it also helps the client to understand...no one presents the idea better than the creative, because they know it truly..... So, I [the account director] like present a script...but the creative who wrote it would be there to sort of help to, if the client has any questions, or if the client says, did you consider this angle instead of that angle, I wouldn't answer that on behalf of the creative, I might give my point of view, but I would defer to the creative...and also helps creatives to hear the client feedback in person. If they hear feedback in person that helps them to understand where the client coming from.” (C10, Account Director)*

*“It's a very personal thing. Some clients like to see the creatives, some agencies like their creatives present when it's a so much bigger campaign. Mostly, it would be the account management and strategists.” (C13, Creative Director)*

*“.....but, there is no reason why creatives don't present the idea. So, we present the ideas to the client. Some clients like creatives present in those meetings. It's not so regimented. That's the best way. You need to have that flexibility to depend on who the client is, how they want to relate.” (C5, Creative Director)*

#### **8.6.2.6 The activities performed by the agency and the client in the idea selection stage**

Although the involvement of client in the idea generation stage is rather limited, their involvement is important in the idea selection stage. In order to develop the most creative idea, the clients of advertising agencies give their suggestions and feedback to their agencies to further revise the ideas developed by advertising agencies. Although the clients do not generate creative ideas, their feedback of how to revise the developed ideas helps shape and develop the final creative idea. As discussed above, commonly, agencies have some routes of how to develop the creative ideas at first, then, they have some informal ‘tissue meetings’ with their clients to check whether their clients agree with their ideas or not or whether their clients have any preference in how to develop creative ideas. Therefore, during the process, clients provide their ideas and feedback in how to develop the creative ideas to their agencies, and then their agencies go away and develop the creative ideas. Sometimes, agencies may do not have ‘tissue meetings’ with

their clients. Yet, after agencies developed some creative ideas, they arrange a formal presentation with their clients and many make some recommendations of what the advantages and disadvantages of implementing the different ideas developed by them. In the presentation, clients tend to ask some questions and show whether they like any one of the ideas developed. Usually, they will give suggestions to the agencies to further revise the creative ideas. Therefore, the creative phase is an iteration process between idea generation and idea selection. In selecting creative ideas, clients act as the co-selector.

Essentially, in accordance with the discussion above about how clients contribute to the creative process, the best way to work collaboratively is by positioning themselves in the areas where they are good at and just focusing on these areas. Clients and agencies have different responsibilities and expertise. The prerequisite of successful collaboration is that both of them understand explicitly of what their responsibilities are and how to collaborate with each other rather than involvement too much on the areas where they are not good at. Trusting your partners on the area that they are not good at and offering assistance in the areas where they are good at are what the agency expects the client to do.

#### ***8.6.2.7 The testing stage***

Based on the empirical evidence, the effects of testing are controversial. In general, testing is to ensure the idea developed is liked by consumers or can produce excellent effects. Therefore, some interviewees argued that testing can help agencies to produce better results. However, some people argue that innovation is about creating something different from others, or creating something originally to surprise the audiences, to make them feel fresh and interesting, thereby casting doubt on the effects of testing as consumers tend to lack the ability of selecting these ideas. Interviewees claimed that if the agency lets the consumer select the ones that they think as good, it is highly likely that they will choose the one that they feel comfortable and familiar. Therefore, to some degree, the ideas chose by the consumers are usually have less creativity and tend to produce normal rather than superior effects. Thus, the effects of doing test cannot be guaranteed and are dependent on a wide range of variables.

Testing can be initiated by the agency or required by the client. In some cases, in the idea generation stage, the agency uses testing to help the creative teams collect more information about their consumers or the client competitors before they generate the creative ideas or to help them screen out the ideas that they developed before they present them to their clients. Put another way, testing is to help the agency gather necessary evidence to convince their clients. Sometimes, the ideas developed by the agency is hard for the client to understand, which indicates that the client may find it is difficult to judge the quality of the presented ideas. Hence, when agencies present their ideas with some qualitative or quantitative evidence, this renders it easier for clients to make decisions. As explained by some interviewees:

*“We do a lot of research, to talk consumers to get what they think of the ideas. Sometimes, we will let the consumers choose the idea, sometimes the client thinks don’t need to test the idea with consumers. Sometimes we will test the idea, but sometimes not. The importance is that you need to find the right people and ask the right questions. To some clients, they may say they know enough about their customers and they know what they want, so, they think that the agency doesn’t need to do the test!” (C4, Creative Partner)*

*“No test! We don’t believe in testing. But, the thing about testing, it’s about that you never know exactly the right audiences to test. We find the testing with consumer is usually brings the level of creative down. It’s still in doubt in what ones doing. And it takes out of control of the people who are on the brand management side, which is the brand and often the creative agency. But advertising for us list, every time we see test happen, creative gets weak and no one gets excited about it! So, in our company, no testing!” (C2, Managing Director)*

*“Sometimes we go to the street and stop people to ask their opinion, whether this mean to you, what this sense, how do you think of this., sometimes, we do formal research, well, we hold together with focus people. This will help (our company) to verify and qualify whether they get it right. Let’s say we have three ideas and show them to consumers, which one they like, what they like about it, how should we change it. That research can help our thinking, help us qualify whether the idea was right.” (C3, Creative Director)*

Even, sometimes, clients intend to do testing by using some independent companies as they do not trust the testing done by agencies. In such cases, clients contact the research company by themselves. The following is an example:

*“The client company will use independent company do test, they don’t trust us, so, they will give it to external companies. I am very sceptical*

*about this, because the research company's business is for money, so what happens, when you bring a work, it's not going well, they have to do more work, you will come back, and test another one, every time they do a research study, they will get more money. They are not motivated to say things are good, they are motivated to say things are bad.” (C10, Chief Creative Officer)*

Therefore, the creative process is an iterative process. The agency and the client tend to have several rounds of discussions before getting the idea right, indicating that they need to go through the idea generation, testing, presentation and idea selection again and again. There are many back and forth stages. As stated by an interviewee:

*“The planning department will do such research and keep direct contact with consumers. And sometimes, we will employ external organisations to test the ideas to get some comments from consumers, then creative professionals will use these comments to further develop the ideas. It's quite rare done before presenting the potential ideas to clients. But actually, it can happen in different stages. Creative process is an iterative process. To the test, it's mainly done for some big campaigns, like TV campaigns.” (C7, Executive Creative Director)*

#### **8.6.2.8 The role of client in the creative phase**

Therefore, the role of client in the creative phase is the information provider and idea selector rather than co-creator of creative ideas. The client role is to judge the ideas with the illustration of their agencies and the knowledge they have. Their inputs play a crucial role in the creative process. Without their suggestions and feedback, agencies would not know how to further revise and refine the draft ideas developed. Hence, their suggestions and feedback are regarded as a component of the developed creative idea. The effect of client involvement is more on the idea selection stage rather than on the idea generation stage.

In short, in the creative process, the client involvement in co-developing creative ideas is not necessary and tends to result in negative effects. In light of the views of advertising managers, the ideal way is that clients leave some space and time to the agency to think creatively and originally. Clients can put forward their views when agencies present the creative ideas to them.

Based on the analysis of client involvement in the creative process, we can see that in the current advertising industry, co-generating creative ideas is not well-accepted as the big difference between what the client and the agency are good at. At least now, the

value of co-creating creative ideas still does not widely accepted by agencies. In other words, agencies do not find an appropriate way to implement it. Or they think that the benefits of co-creating with clients cannot to compensate the potential negative effects. Also, clients may do not find sufficient motivation to be involved in developing creative ideas.

### **8.6.3 Co-creation in the production phase**

#### ***8.6.3.1 The stage of idea amplification***

The idea selected in the creative process is just the core idea of the advertising campaign which can be applied into a wide range of media channels. Thus, the next task is to further develop the core idea to make it apply into different channels. In the idea amplification stage, the idea can be amplified into different types of ideas. Although the core thought of these ideas is the same, they are behaved through different ways. Therefore, the role of producers is important in the whole process. Their role is about how to implement the idea.

In a sense, the idea amplification stage is about confirming the script or the detail of how to bring the core idea into life before beginning to produce it. However, before further developing the core idea, the agency needs to confirm with the client of the media channels which can be used to visualise the idea or to implement the idea. Thus, the task of the media planning and the task of amplifying the core idea are kind of combined together. Clients and agencies co-decide the media plans and co-amplify the core idea. The following quotation explains the function of the idea amplification stage:

*“when we get to idea amplification.....that’s combined with a channel planning, so, at that point , it’s ok, your got brilliant idea, what’s the best way of getting this idea to the audience, and another important thing is which is part of our methodology is how end we engage the audience and conversation about this idea, and hopefully, get them talking about it outside of the pay for media..... so, at the idea amplification stage, at that point, you know, what your ideas is thinking about how do we get the idea out into the general public or among the audience, and get them talking about it. What are the various channels we are going to use to be able to do that.” (C21, Managing Director)*

### **8.6.3.2 *The activities performed by the agency and the client in the idea amplification stage***

Based upon the above discussion about when media should be identified, generally, there are three distinctive situations. The most common situation is that the media is confirmed after the idea has been selected out. Here, we will accentuate the situation in which the selection of media channels is based on the developed creative idea. In such cases, after the client approves the core creative idea, the media agency gets involved in the process. At that moment, the creative agency, the media agency and the client work together to decide which media is the best one to implement the core idea. The budgets that the client has play a determining role in deciding which channels should be used and what types of combination should be made. Sometimes, clients have specific requirements or preference of what types of communication channels that they intend to use. The media planning is not about choosing one communication channel to produce the idea, but about designing a combination of different communication channels to maximise the effects of the creative idea.

After the media channels are confirmed, and then it is time to think how to amplify the core idea into different channels. At first, the creative team will diffuse their core idea to other people involved in this stage to make them understand the essence of the developed creative idea. Then, the creative team, the account handlers, the producer and the production company will discuss how to further develop the creative idea. Although there are some minor changes among the scripts used in different channels, these scripts share one core idea. Such minor changes may be suggested by producer, by the creative team, by the client, or by the production company. Therefore, how these people further develop the core idea can make a big difference in the creativity of the completed solution, which highlights its importance. The following are some examples of the activities performed in the idea amplification stage:

*“Because the client might say we don’t have much to do this thing on the television, I want to focus it on the activation idea that works mainly in the digital space. So, we have to adapt idea like that.....But it’s not so much about, you know, maybe if you just make that a little bit bigger, or make that pink. It’s more.....you got to trust the creative idea.” (C10, Chief Creative Officer)*

*“Yeah...they will definitely add to it. When you have a script, you would do a treatment, and there are nuances that he will add onto that of how he would approach. So, when you go into production, you put it out to a couple of directors, and they will come back and show you treatments. So, they bring it to life visually, they do that by writing up with visuals to go with it, and then the next stage, after you decide the directors, they go for storable which they visualise each thing, then you go for that with the client. Yes, it's very much, that is another creative stage, so, when you go into your directors, they are your creative partner, and some depends on how open your script is, because sometimes you can just have a narrative way as a posted dialogue, and they would definitely contribute heavily into that.” (C4, Production Director)*

#### **8.6.3.3 The involved people in the idea amplification stage**

In the idea amplification stage, at first, the inputs from account handlers, the creative people, and producers in the agency side are necessary. Then, in the client side, the inputs from the marketing team are also necessary. Apart from these, the agency still needs the inputs from the production company.

In short, the idea amplification stage is concerned with how the creative people, the producer, the director from the production company, and the marketing team from the client company cooperate with each other to further develop the idea. As the core idea has already been confirmed, what they can change relies on the detail of the idea, such as the colour of the figure, the font of the word, the size of the picture, etc. Although the client is involved in this stage, much of the responsibility of redeveloping the idea lies in the creative teams, the producer and the director from the production company. The suggestions and feedback from clients enable the agency and the production company to have a clear idea of how to amplify the core idea. As a matter of fact, what happens in this stage is a little bit similar to the creative process. Thus, after the idea revision process, agencies present the amplified ideas to clients to obtain their suggestions and feedbacks. In a similar vein to the creative process, the idea amplification stage concerns many back and forth activities. It is an iterative process.

#### **8.6.3.4 The production stage**

#### **8.6.3.5 The activities performed by the agency and the client in the idea production stage**

Most of the advertising companies concentrate their businesses on the idea generation part rather than on the idea production part. In other words, most advertising companies do not do production. This indicates that after they develop the creative idea, they will utilise some external production companies to help them bring the idea to life. Therefore, the cooperation in the production stage is usually at least dependent on three parties: the agency, the client and the involved production company. The following is an example of how to develop TV advertising in the production stage:

*“The agency has to supervise that. If it’s a TV commercial, you are spending lots of time with production company to explain what it is, how does it work, what it looks like, what’s the casting, where is the location.....there are hundreds of things to do.....You have to write a script, then, you share the script with the production company and the director. And they would have views and thoughts on it. Then, you would draw a story board...and then you present the story boards to the client, the client will approve them, and then you would show the casting of different people ensure the wardrobe, the location.....then the director would come in to present to the client in interpretation of the script, and then, the client would approve that, that then, you go to film.” (C13, Creative Director)*

When it comes to the production stage, everything has already confirmed, reflecting that the involvement of client is very limited. The client may assign someone to keep in touch with the agency on a day-to-day base, which is to monitor the process, but they do not have much collaboration with the agency. In a sense, agencies do not have much to do in this stage either. Much work is undertaken by the production company. As stated by one of the respondents:

*“...Then, it will be sent back and forth on negotiation and on creative developments, and the account management will then be involved on the client approval, on the budget, on the work, and moving into from a creative development phase into a production phase. And when you are in the production phase, again, account management is the single point contact for all clients. So, if a client comes to a shoot, they will be an account manager there to kind of, just to make ensure that the client has everything they need, to ensure the client doesn’t talk with lots of different parties within the agency. So, everything comes through account*



*management and then automatically seen the final product.” (C10, Account Director)*

#### ***8.6.3.6 The people involved in the production stage***

Therefore, the main actors in the production stage are the producers in the agency company, the production company, the marketing team in the client company and some other external organisations, such as the digital agency, the design agency, the technology company, the software company and so on, in developing the creative service product.

#### ***8.6.3.7 The role of clients in the production phase***

Therefore, in the production stage, the client involvement is quite limited. The production company undertakes the major work of the activities involved in the production stage. Clients mainly act as the co-amplifier of the core creative idea and document approver.

### **8.6.4 Co-creation in the idea commercialisation phase**

#### ***8.6.4.1 The people involved in the idea commercialisation phase***

As the production of the advertisement has already finished when it reaches this stage. Any project member can be involved in this stage as they may need to do the final check, particularly the decision makers. In the client side, the marketing team and the decision makers need to get involved in to check the advertisement.

#### ***8.6.4.2 The activities performed and roles played by the agency and the client in the commercialisation phase***

### **Testing**

Before launching the new advertisement, some agencies may decide to do, or some clients may require them to do, some testing to ensure the effects of the advertisement. This is to in case that the launched advertisement cannot meet consumer expectations. Therefore, sometimes, before the launching stage, another stage is testing the accomplished advertisement. This decision is co-decided by the agency and the client. Therefore, the role of the client is the co-decider of marketing test.

## **Launch**

After the idea production and the testing stages, it is time to put the accomplished advertisement into the market. Traditionally, this is the ending point of innovation process, yet the development of technology enables the agency and the client to obtain real time data of consumer responses, which makes the launching stage as no longer the ending stage in some types of advertisements.

### **8.6.5 Co-creation in the evaluation and learning phase**

#### ***8.6.5.1 The people involved in the evaluation and learning phase***

As the aim of this phase is to evaluate the project and to learn from the project, commonly, both the project members from the agency side and the client side need to get involved in.

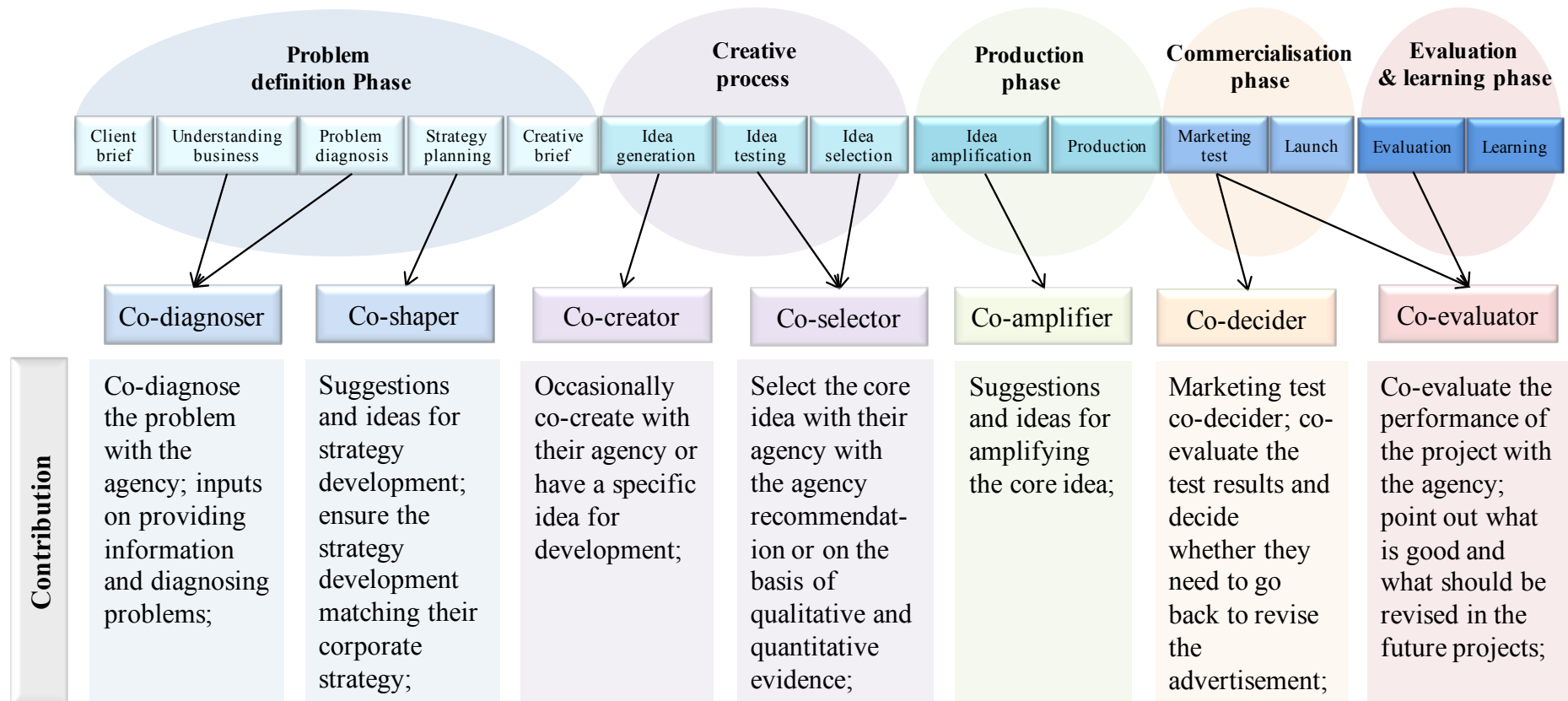
#### ***8.6.5.2 The activities performed and roles played by the agency and the client in the evaluation and learning phase***

The evaluation stage is to check whether they need to make some revisions of the campaign and how consumers respond to that campaign. Thus, sometimes, further revision of the launched campaign is required. In such cases, advertising agencies and clients will have some meetings together for discussing what types of changes should be made, and how they make it. The role of the client is to assist their agency in confirming the revising aspects. The agency undertakes the task of revising the campaign idea or the script to make it become better. Also, since most agencies keep a long-term relationship with their clients, the evaluation after every project will help them work in a better way in the future projects. Therefore, during this stage, clients need to provide the advertising performance information and discuss whether they feel satisfied with the project development, whether there is anything needing to be changed in the future projects, what works well in the project, what they need to be more careful in the future projects to in case of making the same mistake, anything new learnt from the process, etc. Therefore, clients act as the information provider and co-evaluator of the project.

Therefore, based on the analysis above, the primary roles played and activities performed by clients are summarised in the following figure (8.5). In the process of new service development, clients can act as the problem co-diagnoser, strategy co-shaper,

idea co-creator (rarely), idea co-selector, idea co-amplifier, marketing test co-decider, and co-evaluator.

**Figure 8.5 The role and contribution of clients in the innovation process**



Source: Author

## **8.7 The intensity of co-creation**

According to the above description, the co-creation activities performed by clients are co-diagnosing the project problem, co-developing the strategy, co-developing creative ideas (very rarely), co-selecting the creative ideas, co-developing the media plan, co-amplifying the idea, co-developing the production plan, co-deciding the marketing test, and co-evaluating the project. The difference is that the client takes a more active role in diagnosing the problem, evaluating the project, selecting the creative ideas, developing the strategy, developing the media plan, but a more passive role in generating creative ideas and developing production plans.

Additionally, interview respondents claimed that clients should not intervene too much in the creative process since they cannot be able to generate original and creative ideas with too much client involvement. This indicates the importance of the timing of client involvement. Knowing when should co-create and when should not is critical to achieve better project results. In developing advertising solutions, the core is the idea. Interviewees claimed that the client should not have too much involvement in idea generation stage. This suggests that the development or generation of professional knowledge remains in the hand of professional workers. Although with the technology development and the trend of digitalisation, clients are becoming more collaborative during the innovation process and are contributing a great deal of knowledge in the generation process, professionals remains to be the person undertaking the role of knowledge creator.

In order to further identify the intensity of these co-creation activities, the author used some structured interview questions in interviews by using seven point Likert scales to investigate interviewees' perspectives in different co-creation activities. The detail of the average score of each important co-creation activity is as follows:

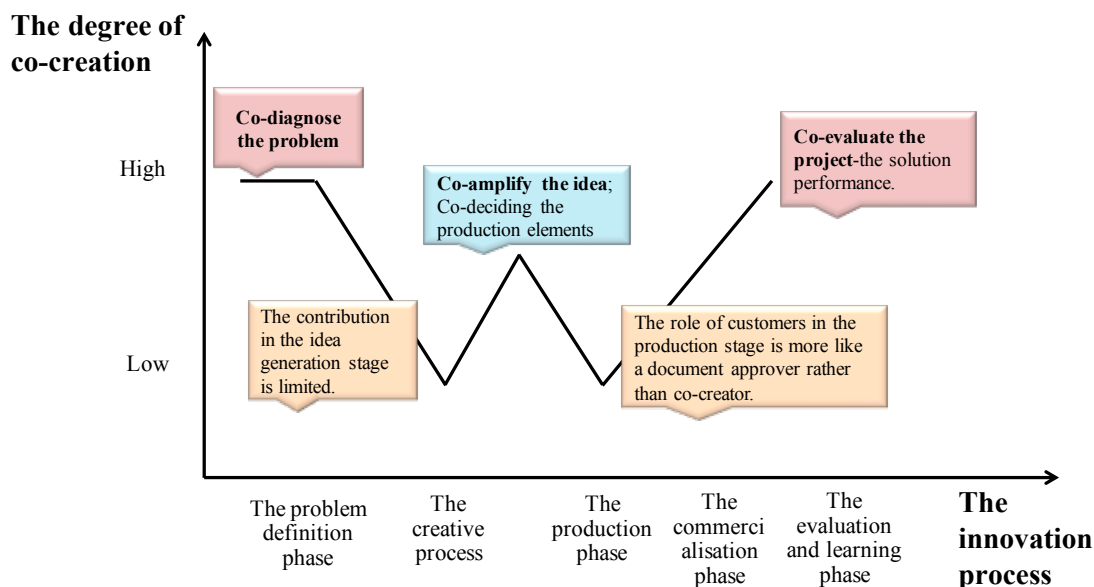
**Table 8.4 The intensity of co-creation**

Co-creation activities	Average Score
Co-diagnose project problem	6.25
Co-develop strategy	5.1
Co-create creative ideas	3.35
Co-develop media plan	4.15
Co-develop production plan	2.6
Co-evaluate project	6.05

Source: Author

According to the analysis of the structured interview questions, in the stage of diagnosing problems, the agency and the client have the most intense co-creation. Then, in the evaluation stage, the agency and the client also have a high degree of co-creation between them. From the above table, we can see the co-creation in generating creative ideas and in the production stage is rather limited. The following figure (8.6) shows how the intensity of co-creation activity changes over the service innovation process.

**Figure 8.6 The intensity of co-creation across the innovation process**



Source: Author

The result shows that the intensify of co-creation follows a 'W-shaped' curve pattern across the service innovation process. In the first service innovation phase, service

providers and their clients spend a lot of time on getting to know each other, collecting information, diagnosing the project problem and developing the strategy. After the problem definition phase, the co-creation between them declines to a low degree in the creative process. In this stage, it is the time for service providers to fulfil their creative potential and their expertise to develop the most creative and effective ideas. Too much involvement at the beginning of this phase tends to limit the creativity development of the service provider. In the idea generation stage, the creative teams combine what the information gathered and knowledge acquired from their clients and external organisations with their own expertise with the knowledge in their company database to develop effective and creative ideas for their clients. Nevertheless, clients play an active and critical role in selecting the innovative idea. In most cases, they cannot be regarded as co-creator, but they are important co-selector of creative ideas in the creative phase. After the core creative idea is identified, the co-creation between the client and the agency increases to co-amplify the core idea and co-decide different media channels. From this stage, the collaboration is not limited to the service supplier and the client. There are many external organisations involved in the phase, such as the media agency and the production company. Therefore, they work together, discuss with each other, and exchange ideas to co-amplify the core idea. After the idea amplification stage, in the next stage—production stage, the co-creation between the client and their service provider drops to the lowest degree since the role of clients in this stage is more like a process monitor rather than a co-creator in contributing to the creativity development in the production stage. When it reaches this stage, the main responsibility of production is the service provider and the production company. Therefore, the intensity of co-creation is the lowest. After the production stage, the client and the service provider may need to co-decide the necessity of having marketing test before launching the final product. Then, they need to co-evaluate the project and see how they further develop the project, how they keep their relationship, and how they work together in the future. At this phase, the co-creation between them is also very high, which indicates the importance of the evaluation and learning phase.

## **8.8 Interaction approaches**

The interaction approaches are the channels that the agency uses to contact the client. With the tasks' difference, the interaction approach used in different stages tends to be

different. As one of the aims of the thesis is to explore how the client gets involved in the process, identifying the interaction approaches used in different stages is necessary.

Our empirical evidence shows that the optional approaches may be utilised in the course of the process are induction day, factory visit, workshop, meeting, video conference, phone call meeting (audio conference), phone call, email etc. These interaction approaches differ in the aspect of the communication nature, thereby indicating they are used in different stages. Different approaches used in different stages imply the purpose and intensity of customer involvement. The elaboration of these interaction approaches are as follows (table 8.5):



**Table 8.5 The elaboration of interaction approaches**

<b>Interaction approaches</b>	<b>The elaboration of interaction approaches</b>
<b>Type 1: Factory visits or induction days</b>	Advertising companies often use this type of approach to understand their new client businesses or when they receive new and innovative projects. By using this type of approach, the advertising company can get in-depth interaction and communication with their customer and shape the mutual understanding and trust between the interaction teams. Factory visits or induction days are often used at the beginning of the process, which also partly explains why the problem definition phase is regarded as the phase having the most intensive interaction with customers by most of the managers. However, when using this type of approach, the information flow is much more unidirectional than workshops and meetings as the main purpose is to absorb the information from their customers.
<b>Type 2: Workshops</b>	Workshops are another approach which is used to get in-depth understanding of their clients' businesses. During the workshop, there is much information exchange between the service company and the customer. Again, this type of approach is often used at the beginning of the process to understand the client business and to collect as much information as possible.
<b>Type 3: Meetings</b>	Meetings are the most frequently used approach to interact with customers. Generally, from the creative process, most of the face-to-face interaction is conducted by meetings. Meetings are also the best way to have bidirectional information flows. Usually, the purpose of meetings is to get feedback from customers.
<b>Type 4: Video conferences or phone call meetings</b>	Both of these two types of approaches are used as good ways to get customer feedback with the premise of reducing cost and cycling time.
<b>Type 5: Emails and phone calls</b>	These two approaches are the fundamental interaction approaches among all the interview companies. They are used to keep things on track and to share documents. Generally, they are not used as the common ways to get customer extensive and intensive feedback.

Source: Author

The following is an interviewee's perspective of when should use workshop in the process:

*".....So, a creative presentation is about buying a route, a tissue presentation is about let's work on this together, let's collaborate, let's think about how this could change, let's think about what we need to be true in this idea for it to be a successful one. But those tend not to be workshops. Because workshops are often when you are building a thought together. So, workshops could inform the brief, could inform the strategy, but the time you get the creative, generally, it's more of a presentation, or a tissue session which can be a conversation, discussion of sharing session with lots of boards with images, stimulus." (C4, Strategy Director)*

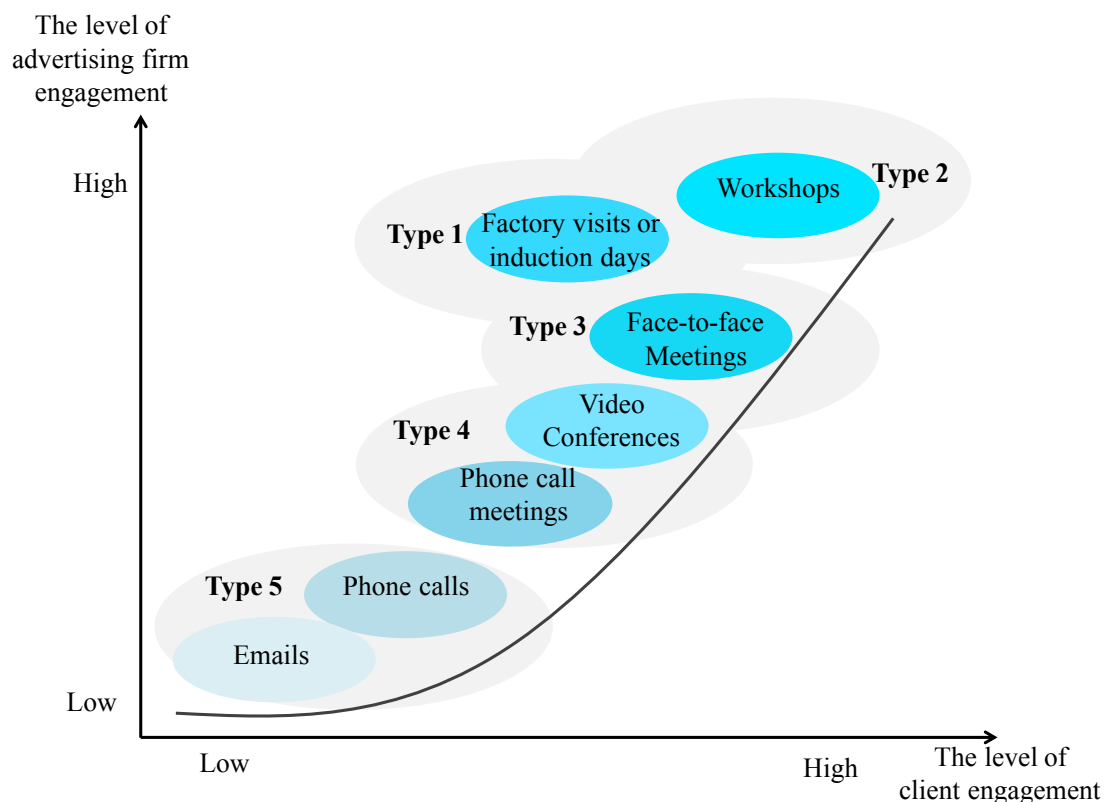
Therefore, based on the empirical evidence, the possible interaction approaches used in the process are shown as follows:

- **In the problem definition phase:** Factory visits, induction days, workshops, meetings, video conferences, audio conferences, phone calls and emails.
- **In the creative phase:** meetings (presentations), video conferences, audio conferences, phone calls and emails.
- **In the production phase:** meetings (presentations), video conferences, audio conferences, phone calls and emails.
- **In the commercialisation phase:** meetings, video conferences, audio conferences, phone calls and emails.
- **In the evaluation and learning phase:** meetings, video conferences, audio conferences, phone calls and emails.

In sum, factory visits, induction days and workshops are good approaches to be utilised in the first phase – the problem definition phase. Meetings are used throughout the process as it is the fundamental approach to enable service providers and their clients to have face-to-face communications. Although meeting may be used throughout the process, it is used more often in the first phase, the second phase and the last phase. This is almost in line with the co-creation intensity pattern across the process. Therefore, the importance of meeting tends to also follow a 'W-shaped' pattern. The first phase is the most important phase and has the most intense co-creation degree, thus, meeting is used to make service providers and clients have face-to-face communication. In the second phase, although the co-creation intensity is not very high in this stage, the involvement of client in selecting ideas is paramount. Therefore, meeting is used between them to discuss potential routes and ideas. Then, in the production stage,

meeting is used to discuss the possible ways to amplify ideas. After that, the role of client is more as a monitor. Therefore, the importance of meetings and the frequency of meetings decline. Although they may have meetings, the purpose is to keep things on track rather than discussing and creativity development. In the evaluation phase, meeting is also important for them to keep discussing the consumer responses and evaluate the performance of the product as well as discuss how to revise the product and re-launch it. Video conferences and audio conferences are two possible ways to replace face-face meetings when budget and time are limited. Phone calls and emails are used throughout the process as they are the fundamental approaches to exchange information with their clients.

**Figure 8.7 The nature of interaction approaches**



Note: The axes are intended to indicate increasing levels of engagement, for example, emails have lower engagement than workshops.

Source: Author

Therefore, from the above figure (8.6), we have a better understanding of differences of these interaction approaches in the dimensions of how engaged the client firm and how

engaged the advertising firm are in different stages. In terms of the first type of interaction approach – factory visits or induction days, the engagement from clients and advertising firms in the process tends to be lower than that in workshops. This is because when using factory visits or induction days, the information flow is more from the client to the agency. Yet in workshops, the information flow is more bidirectional. Regarding the last four types of interaction approaches, both the advertising firm and the client firm engage the most in workshops, while both of them engage less when using emails. The interactivity of these interaction approaches follows a declining trend from type 2 to type 5. The interactivity of type 1 locates between type 2 and type 3. In fact, the types of approaches they use to interact in different stages signify the co-creation intensity between them. Therefore, in the stages which require intense co-creation, meeting tends to be the best interaction approach, while in the stages which do not need too much co-creation, phone calls or phone call meetings may be good ways to communicate.

In accordance with the view of the interviewees, the importance of face-to-face interaction is far beyond that of any document sharing. Advertising services are human business, when advertising firms collaborate with their clients, they have to have many face-to-face interactions. Business files or documents are important for agencies to absorb their client businesses, but interpersonal interaction is much more important due to the nature of tacit knowledge. Tacit knowledge refers to that some important information is in the employees' minds, which you cannot obtain it from any codified document. The following quotation explains the importance of interpersonal interaction:

*“And we will work with them. And that actually, sometimes makes it easier for us to absorb. Because we get a little bit some notice information but then where we are able to articulate that, in document that, in a way that is easier for us to use in the future. So, that is usually the way we are with them. They don't just give us a big file and document and say: read this and we got our own place. It's kind of quite often just in the minds of the people in the business..... But yeah, it's absolutely interpersonal relations rather than documenting and supplying us with lots of folders and files to.....” (C3, Account Director)*

However, the interaction approaches between agencies and clients also depend much on the client. Clients play the determinant role in deciding the specific approaches. In addition, it depends on what the challenge is. Therefore, the interaction approaches are different between a traditional communications project and an innovation project. This

signifies that different types of projects may require different types of management from the advertising firm in the innovation process. The following quotation shows the important influence of clients on the interaction approaches used:

*“It would vary massively by the client. It would vary by their structure and also their business, how they operate their business.” (C3, Account Director)*

## **8.9 The complexity of co-creation**

In practice, the management of the innovation process is quite complicated and even rather chaotic. Namely agencies have to know how to adapt to the changing environment and to solve the involved uncertainties rather than insisting on the predefined model or the approach that they are familiar with, particularly with the turbulent, unstable and uncertain environment. The general stages of innovation process are mostly the same in most of the advertising agencies, yet there are many differences between different accounts in terms of the detail of these stages, such as how to work with the client. Therefore, it varies in different pieces of businesses, in different relationships between the client and the agency they have, and in the way the client organisation structured. In addition, the development of technology and economy has already given rise to new forms of innovation and new kinds of innovation process. There is ‘*no one size fits all*’ approach. The following quotation lists some examples of using varying ways to work with clients:

*“It’s very different in different pieces of business. So, some clients will work internally, and come and say this is the brief. They will do a briefing to the agency, and it would be inspiring and full all of their knowledge, that’s one way. In the other end of the spectrum, some clients we have, we work with them to get the brief to us, they may say, we want to talk about this topic in this summer, can we work together to understand what is the most interesting way to talk about it. In this case, the agency almost writes their own brief. So, they write the brief instead of the client giving them. But you work very very tightly to make sure the brief is full of most of inspiring, interesting, and stimulating insights to build a very strong strategic point of view and creative idea. There really isn’t one size fits all, it often depends on the relationship the client and the agency they have, but also how the client organisation structured, so, for example, [a big brand name] and [a big brand name] have planning on the client-side, so they have a team of planners really deeply understand their audience, their culture, and really good at getting very inspiring briefs. So, they have that part of skill, and then the agency works with them to shape the strategic platform. Other clients don’t have that planning expertise in*

*house, or actually just want their agency to take more of their role in managing their brief. And also, sometimes, if there are many agencies, the lead agency can sometimes work very closely with the client to set the brief for what else. So, there is really not one size fits all. I think generally, I would say the industry involving into the place where the client sends the agency own the brief together and they are very collaborative about what the task is, what the potential answer could be, and it is much less of, here is the document, go away and answer it. It's much of a conversation.” (C4, Strategy Director)*

According to interviewees' perspective, involving the client earlier in the process is inclined to alleviate some of the ambiguity of how the work should be done and what issues should be addressed at different stages along the innovation process, thereby resulting in better results.

All the above discussion of co-creation is based on the situation in which clients have the intention to collaborate with agencies. Sometimes, clients have a strong will of what they do and what the agency needs to do, which means that the agency has little freedom to exert their creativity. Although agencies know what they need to do, they may have to listen to the words of clients. Yet, compared with a decade ago, advertising clients are becoming increasingly collaborative. However, this does not mean that they will collaborate with their agencies in all their projects as it is unrealistic. Just as one of the interviewees described:

*“I think a bit both, probably.....I think, opinions are vastly different on this subject. But also, the truth is both sides' arguments are closely as they think they are. 20 years ago, advertising agencies were absolutely said: we do the creative work, you do the manufacturing, gives us a brief, we will tell you how to do it, and we have a huge argument about what we are right, you are wrong.....But the world has changed; I think we live in a much more collaborative place now. And different clients behave different ways in different agencies' behaviour in different ways. So, you'll find some of our client relationships in this building are much more like the old-fashioned way: they give us the brief, and hey, you are the creative guys, you can map creative answers and don't worry about it. And that's kind of one approach to the business communication. Other clients are naturally much more geared to collaboration and co-creation.” (C15, Managing Director)*

Therefore, in terms of some projects, agencies have very close collaboration with their clients, while regarding some other projects, agencies do not have too much collaboration with their clients, just do what their clients require them to do. In addition, the above description indicates that the degree that agencies collaborate with their

clients is different in distinctive projects, which implies that the differences among projects influence how service providers manage the innovation process. Therefore, in the next chapter, this thesis will discuss how KIBS project innovativeness influence new service development.

#### **8.10 Learning (Knowledge transferring)**

As discussed in section 8.4, the service innovation process in advertising firms includes the learning and evaluation phase. Advertising services are one type of KIBS, thus professional knowledge is the core of advertising companies. In KIBS firms, they accumulate their knowledge by engaging in different projects and then learning from them, thus learning is an important issue in KIBS. Learning can not only help companies cope with project problems more efficiently and effectively, but also help them avoid making the same mistakes again. The above discussion has demonstrated the importance of co-creation between service providers and clients, which implies that there is a load of knowledge transferred between them in the innovation process and both can learn from each other. Because every project is different from others in some areas, employees need to know how to apply what they learn from other projects into a different situation. However, because KIBS firms are filled with tacit knowledge which is hard to store, some interviewees argued that the importance of learning is to help the company know who they can bring into the project and where they can find the relevant expertise. This indicates that the first step of learning of tacit knowledge is to know who possesses such tacit knowledge, and then through communicating with the person to achieve the aim of tacit knowledge learning and transferring. Therefore, in order to facilitate the transferring of tacit knowledge among employees, companies can codify the general information of each project at first, such as the good and bad aspects of each project, the mistakes made in the process, and the responsibility of each project member. This can be classified as one type of knowledge codification. Such type of knowledge codification is to assist the learning and transferring of tacit knowledge. Therefore, verbal communication is the necessary step of transferring tacit knowledge. In terms of how to learn from projects, there are two different processes: one is in the course of the project; the other is after the project (formal review session). The former is an automatic and individual process, while the latter is a more formal and company level learning process.

In the innovation process, learning is throughout the process, including during the process and after the process. Most learning occurring during the process can be regarded as the automatically personal behaviour. This signifies that such type of learning basically remains in the individual level. The knowledge that individuals learn in the process is mainly about communication skills, creative thinking styles, presentation skills, new animation styles, knowledge about markets, consumers, clients, etc. Another type of learning happens after the process or at the end of the process. Such type of learning usually has formal review sessions to gather people together to discuss, debate, learn, and share and can be regarded as company level learning. The knowledge that individuals learn from the formal review sessions could be about the innovation process, about certain type of advertising problem, about the client, about partners, about consumers and culture trends, about certain industries and markets, etc. As discussed above, the degree of co-creation between agencies and clients varies from projects, which implies that the amount and type of knowledge that they transfer and learn from each other in different projects tend to be different. This signifies the differences of the attention paid on different types of projects and the resources required for different types of projects from the service company.

Learning is not the end of how knowledge transfers in the process. The next important step is to share the learning with other colleagues, other teams, or across the whole company to maximise its applicability and reusability. Some companies have more frequent sharing sessions, such as morning sessions or weekly sessions, while some others have bi-weekly sessions or monthly sharing sessions. Additionally, some firms even set up a special department or team to manage the knowledge transferring between companies or teams, indicating the great attention the company give to knowledge management. **(Because of university regulation of PhD thesis word count, the detailed discussion of knowledge transferring and learning is in appendices.)**

## **8.11 Conclusion**

This chapter has conceptualised the production stages of developing creative solution and discussed how the client is involved in the innovation process in the areas of the people involved, interaction approaches used, and activities undertaken as well as briefly summarised how service providers learn from the innovation process.



The new service development process includes fourteen stages: client brief, understanding client business, problem diagnosis, strategy planning, creative brief, idea generation, idea testing, idea selecting, idea amplification, production, marketing test, launching, evaluation, and learning. The service innovation process is constituted by five phases: problem definition phase, the idea conceptualisation phase (creative process), the (idea) production phase, the commercialisation phase, and the evaluation and learning phase. All the fourteen new service development stages can be classified into the five innovation phases.

By reviewing the literature, the term co-creation is misused to some extent owing to the fuzzy nature of the term. Somebody may treat it as the act where one company co-generate the innovative ideas with their customers, while some others may think it represents an active collaboration attitude. Here, co-creation refers to the various degrees of active involvement of clients in the innovation process development activities, such as creation/ideation, design, elaboration, production, and the like, to create something new together. By analysing the client involvement in every single stage, we can understand the co-creation sub-activities across the innovation process. The main stages which have the co-creation between the service supplier and the client are the information collection stage, the problem diagnosis stage, the strategy planning stage, idea generation stage, idea testing stage, idea selection stage, idea amplification stage, the marketing test stage, the evaluation stage. Although in the literature, some researchers treat co-creation as co-developing the innovative idea together, the empirical evidence shows that in the advertising industry, only in a small number of projects, service providers and their clients co-generate innovative ideas together. In most cases, if clients are involved too much in the idea generation stage, the final service product tends to be uncreative and ineffective. Therefore, co-generating innovative ideas together is inapplicable in KIBS industries, at least in most projects in the advertising industry. This indicates the importance of KIBS firms in providing professional services to their clients. What attract their clients to choose them is their expertise and reputation. However, the co-creation between the service provider and the client in other stages is critical to the new service solution development. In order to implement co-creation strategy successfully, both the service provider and the client should have a clear line of each other's responsibility. Otherwise, both the agency and

the client would regard it as an inefficient and ineffective way of working with each other.

Combined the findings above, the activities performed and roles played as well as the interaction approaches used by clients and suppliers are depicted in the following table (8.6):

**Table 8.6 The activities performed and roles played by clients and suppliers in the co-creation process**

<b>Stages</b>	<b>Co-creation roles played by suppliers</b>	<b>Activities performed by suppliers</b>	<b>The nature of communication</b>	<b>Activities performed by clients</b>	<b>Co-creation Roles played by clients</b>
<b>Client brief</b>	Brief inducer	Guide the client to write a feasible brief.	Face-to-face meetings; (Dialogue; Text)	Write a clear and precise brief.	Brief provider
<b>Information collection</b>	Information collector	Collect information from clients, from the database they have and from external sources.	Induction days, factory visits, workshops, or face-to-face meetings; Emails; Phone calls (Detailed debate; Document exchange; Text)	Provide as much information as they can to assist their agency; Behave actively in the process and answer agency questions.	Information provider
<b>Problem diagnosis</b>	Problem diagnoser	Diagnose the advertising problem or find out the advertising opportunity with clients.	Face-to-face meetings or workshops; Emails; Phone calls (Detailed debate; Document exchange; Text)	Co-diagnose the problem with the agency.	Problem Co-diagnoser
<b>Strategy planning</b>	Strategy creator	Have in-depth discussions with clients at first, then, propose the suitable	Face-to-face meetings; Emails; Phone calls	Have many discussions with the agency before the strategy is proposed.	Strategy co-shaper

		advertising strategy.	(Detailed debate; Document exchange; Text)	After adequate discussion, give space and time for the agency to think creatively and originally.	
<b>Creative brief</b>	Creative brief developer	Develop creative brief and discuss with creative teams.	Maybe face-to-face meetings; Emails; Phone calls (Document exchange)	Maybe just need to sign some documents.	Document approver
<b>Idea generation</b>	Idea generator (Creator)	Generate creative ideas and may need to have some discussions with clients.	Face-to-face meetings; Emails; Phone calls; (Document exchange; Text)	Should not get involved in this stage too much; Give adequate time and space to the agency to think creatively and originally.	(Very rare) Idea generator or Idea co- creator
<b>Idea testing</b>	Idea testing organiser	Sometimes, their clients may require them to test several ideas.	Emails; Phone calls; (Document exchange; Text)	Sometimes, they may require doing the test by themselves.	(Maybe) Idea testing organiser
<b>Idea selection</b>	Idea selector	Review all the potential possible ideas with their clients; Do presentations and make some recommendations of the best idea.	Face-to-face meetings; Emails; Phone calls; (Document exchange; Text)	Review all the potential options together with the agency; Co-select the one which fits with their company the best.	Idea co- selector
<b>Idea amplification</b>	Idea amplifier	Amplify the core idea into different media channels with the client and the production company.	Face-to-face meetings; Emails; Phone calls; (Document exchange;	Co-amplify the core idea confirmed above with the agency and the production company.	Idea co- amplifier

			Text)		
<b>Idea production</b>	The organiser for idea production or the idea producer	Producing ideas into real advertisements by themselves or working with external companies to produce those ideas.	Emails; Phone calls; (Document exchange; Text)	Have rather limited involvement in this stage; Most of the involvement is for signing documents or controlling the work progress.	Document approver
<b>Marketing test</b>	Marketing test decision maker and organiser	Organise marketing test and discuss the result with the client and decide whether the solution needs any revision with them.	Emails; Phone calls; (Document exchange; Text)	Discuss the test results with the agency and co-decide whether the solution needs any revision.	Marketing test co-decider
<b>Launch</b>	Advertisement releaser	Release the advertisement into different media channels.	Emails; Phone calls; (May be face-to-face)	Sign some documents to approve the release.	Document approver
<b>Evaluation</b>	Advertisement evaluator	Evaluate the development process and the project performance with the client.	Face-to-face meetings Emails; Phone calls; (Document exchange; Text)	Co-evaluate the development process and the project performance with the agency.	Co-evaluator
<b>Learning</b>		Learn from the process		Learn from the process	

Source: Author

The above table not only provides a complete picture of the sub-activities constituting co-creation and the activities performed and roles played by customers and suppliers in the innovation process, but also shows how co-creation changes over the course of the service encounter and the nature of how suppliers and clients interact with each other in each stage. From the table, the roles played by suppliers are brief inducer, information collector, problem diagnoser, strategy creator, creative brief developer, idea generator, idea testing organiser, idea selector, idea amplifier, the organiser for idea production or the idea producer, marketing test decision marker and organiser, advertisement releaser, and advertisement evaluator. The roles played by clients are brief provider, information provider, problem co-diagnoser, strategy co-shaper, idea co-creator (very rare), (maybe) idea testing organiser, idea co-selector, idea co-amplifier, document approver, marketing test co-decider, document approver, and co-evaluator. Therefore, the main activities that clients engage in are not limited to monitoring the progress of the process, but also include problem diagnosis, strategy planning, idea selection, idea amplification, deciding the marketing test, and evaluating the project. In terms of the nature of interaction in the innovation process, the interaction between service suppliers and clients is more intense at the beginning of the process. At these beginning stages, the interaction between them is more based on detailed debate with each other rather than just the exchange of documents. The intensity of co-creation across the process follows a ‘W-shaped’ curve pattern, which highlights the importance of the problem definition phase and the evaluation and learning phase and signifies too much involvement in certain phases (the idea generation stage and the production phase) could cause negative effects on the solution innovativeness and effectiveness.

## **9 Research Result 3: KIBS Project Innovativeness and Its Influences on the New Service Development Process**

### **9.1 Introduction**

The above chapter conceptualised the development stages of creating innovative solutions and discussed how the client involved in the innovation process in the areas of the people involved, interaction approaches used, and activities undertaken. The findings in Chapter 8 not only show us a picture of the new service development practice in the advertising industry, but also indicate that projects are different and these differences will influence the resources put into the innovation process, the way to manage the innovation process and to co-create with clients, and the learning from the innovation process. Therefore, this research uses KIBS project innovativeness to conceptualise the dependence of resource required in projects, the riskiness involved in projects, and varying learning from the project. Based on the conceptualisation of KIBS project innovativeness, this Chapter analyses the influences of KIBS project innovativeness on developing new service.

Section 9.2 conceptualises the KIBS project innovativeness based on the literature in Chapter 4. Based on the conceptualisation of KIBS project innovativeness, section 9.3 investigates practitioners' perspective of it and examines whether the practitioners' perception supports the conceptualisation. Section 9.4 discusses the influences of KIBS project innovativeness on the new service development stages, the level of competence of participants required in the project, the involvement from decision makers, and the co-creation (interaction) between service providers and clients. Section 9.5 is the conclusion of this chapter.

### **9.2 The conceptualisation of KIBS project innovativeness**

In light of the literature and discussion on Chapter 4, this research claims that the KIBS project innovativeness is determined by two elements: the novelty of the project problem itself and the novelty of the solution. Because the research focus is on KIBS in advertising, the novelty of the problem itself refers to the level of new knowledge that the advertising company needs to master in understanding the project problem, the advertised products or services, the advertised market, and the nature of consumers they

need to target. Generally, the novelty of the project problem itself is decided at the beginning of the project. The detail of the knowledge level of the (project) problem itself is displayed in table 9.1.

**Table 9.1 The novelty degree of the project problem itself**

The novelty of the project problem itself	Low	Medium	Medium-High	High
Definition	The project is the extension of previous project with little further revising requirement.	The project is a new project to the company, but the company has the experience of serving for the similar projects.	The company does not have much experience of operating the projects, but they can find much information about the project from external sources. It is a new advertising market that the advertising company is exploring.	The advertising product or service is new in the marketplace. The company does not have any information of this type of projects and cannot find direct relevant information from external.

Source: Author

As indicated in Chapter 4, the solution innovativeness in advertising is related to a wide range of dimensions (den Hertog, 2000, Miles and Green, 2008, den Hertog et al., 2008). Chapter 7 conceptualised the advertising innovation which is associated with the innovation on the dimensions of service concept (creative content), delivery channel, data, technology, client interface, consumer interface, revenue model, changes in value chain, and changes in organisation. Thus, the advertising idea can behave different in a wide range of ways, for example in the advertising format, in the advertising content, in the characters used in the advertising, or in the advertising scripts. As discussed in Chapter 7, content innovation is one of the core elements in determining advertising innovation. Combined these, solution innovativeness is co-decided by innovativeness involved in the above dimensions. For example, in some projects, the project solution



needs to use new technology or new advertising delivery channels to create it, while in other projects, the technology used is a mature technology or an existing advertising delivery channel is used. Generally, the solution innovativeness cannot be confirmed at the beginning of the process (only a part of the solution innovativeness is confirmed at the beginning of the process). The level of solution innovativeness tends to become clear along the solution development. The table 9.2 shows the detail of different levels of solution innovativeness.

**Table 9.2 The level of solution innovativeness**

Solution innovativeness	Low	Medium	Medium-High	High
Definition	Using the existing service solution, only having a little bit customisation in the solution content; very low level of creativity involved;	Adaption of existing service solutions or integrating different ideas together; having much creativity involved in adapting the existing service solutions;	The service idea (content), format, delivery channels, or technology used is new to the firm.	The service idea (content), format, delivery channels, or the technology used is new to the marketplace or new to the world.

Source: Author

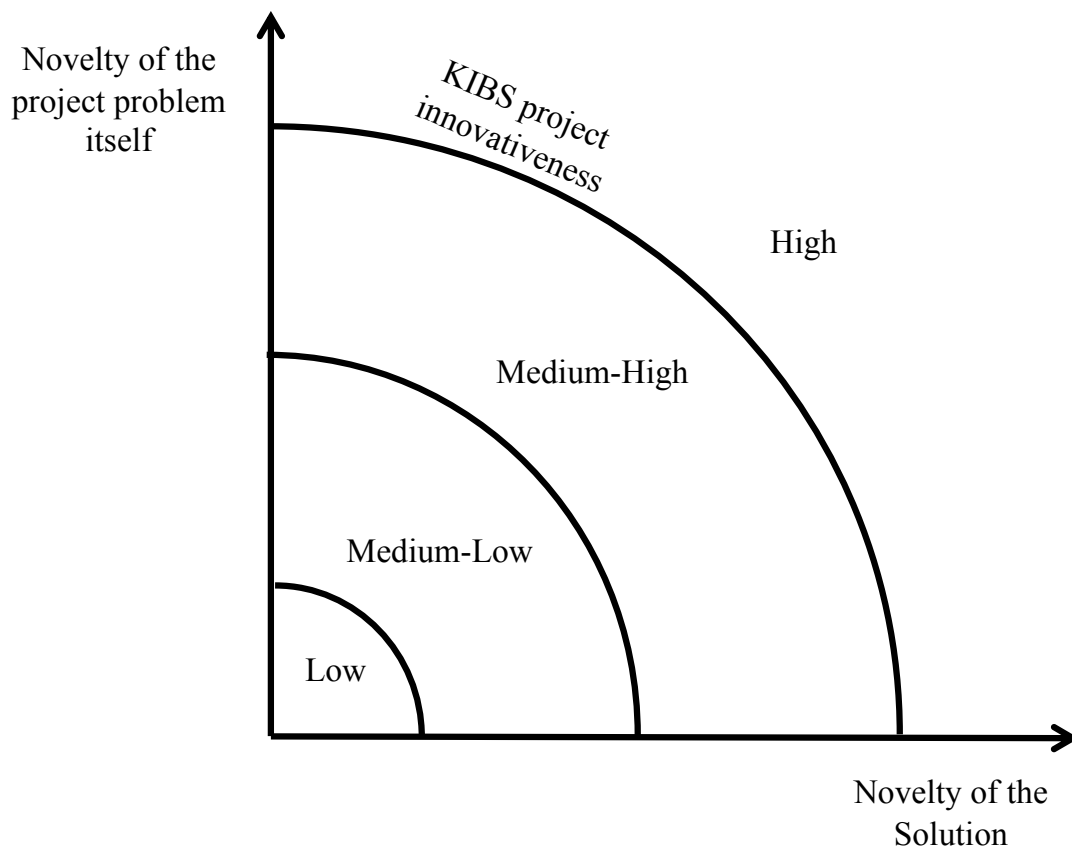
Therefore, KIBS project innovativeness is about the novel knowledge and experience that the service company need to have to understand the types of projects needing to be serviced and the solution innovativeness involved. It is measured by how much novel knowledge and experience the service company need to have for accomplishing the project. Therefore, the following table (9.3) and figure (9.1) displays some combinations of KIBS project innovativeness.

**Table 9.3 The level of KIBS project innovativeness**

Novelty of the project problem itself Solution Innovativeness	Low (L)	Medium (M)	Medium-High (M-H)	High (H)
Low (L)	L	M	M-H	H
Medium (M)	M	M	M-H	H
Medium-High (M-H)	M-H	M-H	M-H	H
High (H)	H	H	H	H

Source: Author

**Figure 9.1 KIBS project innovativeness**



Source: Author

The curves used in the above figure (9.1) are different from the lines in economics. This is not intended to be statistical or suggest a precise distribution; it is an aid for classification. As KIBS project innovativeness is determined by the level of knowledge novelty required in understanding the project (problem) itself and in developing the potential solution, the extent of KIBS project innovativeness can exist in anywhere in the above figure. There is no direct relation between the level of innovativeness in understanding the project (problem) itself and in producing the creative solution.

### **9.3 The practitioners' perception of KIBS project innovativeness**

According to interviewees' perspective, the innovativeness of projects is related to the complexity of the brief. In the interview, some respondents thought that the complexity of the brief is the key factor to decide the innovativeness of projects. In some projects, the client brief is complex and they do not have much experience on it, while in some other projects, the brief is very simple or the project is about an ongoing campaign, which only requires different execution approaches; the innovativeness in such projects is low. The client brief defines project characteristics. From the client brief, advertising agencies will know what the project is about. This partly coincides with the conceptualisation of KIBS project innovativeness above, which defines the innovativeness of projects as the knowledge and experience of the (project) problem itself and the service solution innovativeness. The following are some quotations about practitioners' perception of KIBS project innovativeness:

*"It depends on the complexity of the brief. If it's a complex one, we might need to the people take the brief, might need to sit down together and work out what way we want to go with it: you know, what strategy we can come with it, how can we approach this, taking this brief, cutting the creative idea...then, so we would do that first, then we would brief to the teams. So, then we would say, we should approach this...if it's a very simple brief, someone we work with all the time, like, if we got an ongoing campaign, it's just another execution for different products, for instance. Then, in a simple brief, we would need a discussion between, we would get the brief from the client, then we would go to the creative team pretty much immediately." (C4, Creative Officer)*

*"[The client] we are bringing a new product to a market, I'd like your guys to look at that and then for you then starting from a very different level, because the new innovation might speak to a slightly different audience, a slightly different occasion, so, yeah, sometimes, projects coming just need to be more creatively in execution, if it's a ... we want*

*you to do this again, but just in a slightly different way, like in an update. For example, in some things which are I guess new briefs based on innovation, or new product, something we would then start right back of the high, revisit the strategy and make sure we develop the strategy this way.” (C4, Managing Director)*

According to the perspective of interviewees, the KIBS project innovativeness is dependent on the client, the time, and the project budget. In the conceptualisation above, the KIBS project innovativeness is related to two dimensions: the knowledge and experience of the (project) problem itself, and the novelty of service solution. In terms of the former dimension, the knowledge that the company has is mainly determined at the beginning of the project and is more related to the knowledge and experience that the service company has. Regarding innovativeness in the latter dimension, it is more related to the requirements of clients: their solution preferences, the time that they give to their service company, and the budget for developing the service. In other words, the level of solution innovativeness is related to the level of client ambition for the service. Therefore, it is a complex issue to measure the KIBS project innovativeness. Although it is a complex issue, the degree of KIBS project innovativeness is mainly identified at the beginning of the process and may be changed over the process with the changing requirements of clients. The following quotation indicates the importance of time and project budget in solution innovativeness:

*“Often times they see things in isolation, sometimes they come together, it depends on what your clients’ needs are, how progressive they are, timing, money. Literally, every single job with every client is just so different, they used to be always the same, we want TV, we want print, we need a website built. What’s happening now, this world is coming together, they can just go off any kind of direction, it’s very confusing. It’s very hard to ensure you have the right people.” (C5, Creative Director)*

Interviewees clearly stated that the level of ambition from client directly influences the approaches that the company used to develop the service. The level of ambition from the client in advertising refers to the goal they want to achieve, such as what kind of impact that the advertisement should make. Although service companies usually push their clients to accept more creative advertising, the client original advertising ambition is more important in determining the innovativeness of the final solution. Innovative advertising tends to have more chance to create greater impact for the brand, but in the meantime, innovative advertising also represents more risk of producing an advertisement that does not work. In addition, the innovativeness of service solution is

highly dependent on the capabilities of the service company. Some service companies are better than other companies in producing innovative service solutions. Therefore, the level of project innovativeness in the solution dimension is highly related to the advertising ambition of the client. The following is a detailed quotation of how client ambition influences solution innovativeness:

*“So, the level of innovativeness of the product that the client is offering doesn't affect the approach of how we do it. What does affect the approach is the level of ambition from the client. So, the client comes to us with regardless of what products they are selling, it might be coke, it could be the Olympic games, but they will come to us very often with a level of ambition. We always ask the question here: what's your culture ambition, and what's the impact you want to make in the world, and what would you like the impact of this communication to be; because if you are going to create a TV spot, unless you got a huge amount of money, it's a little bit more difficult to come through. It's not to say impossible. But that helps us to understand exactly how much impact they want to make in the world, and therefore, what their appetite is for trying different ways of creating that noise.....we will always try and come up with something very differently or try and come up with something that isn't tried and tested in TV ad or print ad, regardless of the brief. But if the client is not showing, not demonstrating a huge amount appetite to approach it in a different way, then we will waste our time and therefore our money. Part of what drives that level of ambition is to do with the stakeholders that client has to manage.....if a client is in an organisation that is relatively conservative and would prefer to mimic or rely on proven results, and then we have to typically go through more traditional means to get that message across. Because on those tried and tested routes, there is a way to research that, to understand what level of impact that message might have, there's way of simply providing a safety net to a client as to whether this is going to work or not.....actually the more innovative you are in your approach coming out of it, that adds to the message, so, the more innovative you can be in the media, and format of that message, the chances are that will create great impact for the brand. But some things don't work.....I think what's important is to acknowledge, as an agency, we are always looking for the most innovative solutions to whatever the brief is. The client appetite is the important bit here. If a client.....has less appetite for it, we will still try and be as innovative as possible within that brief, but it would be more contained.” (C22, Managing Director)*

Therefore, the service solution innovativeness is closely related to the ambition level of the client, time given to the service company, and the money used to develop the service solution. Yet, the innovative capability of the service company is the prerequisite of producing innovative service solutions. The requirements from and the advertising ambition of clients are the driving force to develop more innovative service solutions.

Moreover, the above quotation suggests that there is little relationship between the newness of the advertising product or service and the solution innovativeness. Interviewees pointed out that what advertising companies are concerned with is how to be innovative, rather than whether the advertising product or service is innovative or not. A new advertising product's advertisement can be produced by using an existing advertising solution, while an existing advertising product's advertisement can be innovative. The primary goal of advertising agencies is to deliver the brand message to consumers and to make consumers feel attracted by their advertising message. Therefore, how to make an interesting and innovative advertisement is the key to help clients attract and keep consumer attention, and to create great impact on the brand. The following quotation shows the importance of innovative advertisements in attracting target consumers:

*“One of the biggest question we have to answer is we all learn to do our work with people ...screen.....and how do you get through them because it's a whole other game. Like the TV is on, they can hear it but they are not even watching it. That's a big question, I don't think anyone got a perfect answer to that. To me, that's the scary thing, that's the innovation that you need to understand. Like how do you understand your 14-year-old kid.....playing the game he wants to play, he doesn't have to see ads if he doesn't want to, that question, how you gonna be clever and get through to that kid. To me, those are the big innovative questions rather than how do you support a product that is innovative? How do you be innovative in media is the real question, I think. ... our product is advertising.” (C25, Planning Director)*

Therefore, the degree of solution innovativeness has a rather limited relationship with the innovativeness of the advertising product or service. This is because the innovativeness of the advertised product or service cannot decide the way the agency uses to come up with the solution. If the advertised product is a totally new product or the product which has made a lot of changes when compared with other products belonging to the same category, this only decides that the agency may have little knowledge and experience of advertising that type of product or service, which means that the innovativeness in the knowledge level of the (project) problem itself should be high, but it cannot decide the level of solution innovativeness. The agency may use an existing campaign format to make a TV advertisement for the company which produces a new type of washing liquid or biscuit. But here, using the existing campaign format does not mean the produced advertisement is uncreative. As what was discussed in

Chapter 7, they can be innovative in the advertising content by changing the elements used in the advertisement. Therefore, the innovativeness of advertised product cannot decide the level of solution innovativeness, but it has a great influence on the knowledge level that the service company has on (project) problem itself. If the agency uses an existing campaign format to put forward the solution, this means that the innovativeness of the project mainly comes from the dimension of the knowledge of the (project) problem itself, which indicates that they need to spend more time in searching the information related to that project category or by consulting the consulting company to have an in depth understanding of the project. Therefore, the level of KIBS project innovativeness, or where the KIBS project innovativeness primarily derives from, influences the way that the agency used to search information, such as where they should search the information and who they should consult. The following quotation lists some examples to support the argument proposed here:

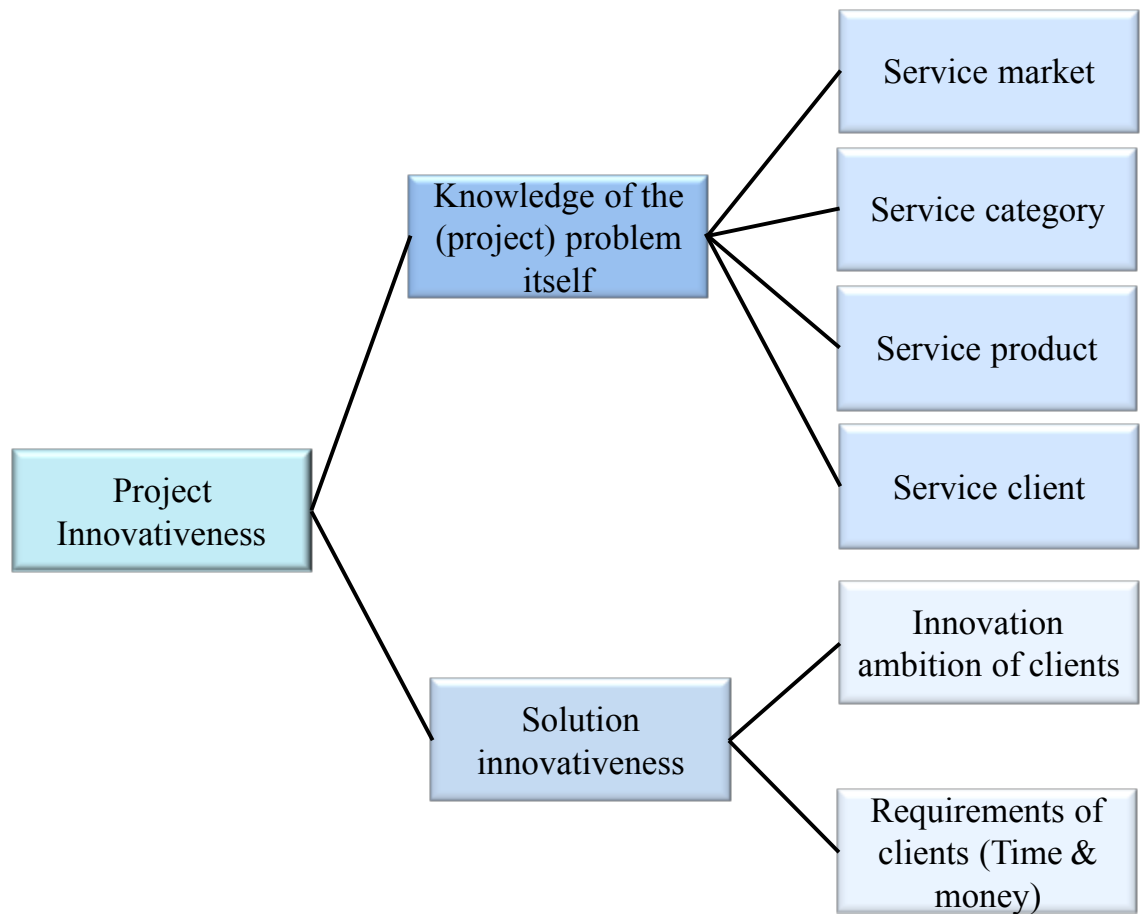
*“The innovation level of the product that the client asks us to advertise doesn’t mean we approach the answer differently. .... so, if the client comes to us and says, oh.....the biscuits, if there is another pack of biscuits or in that same campaign, then obviously, we can come up with the next TV spot in that same campaign format, so, sweet at the end of it, so, it will still be fluffy animal come out from it. But we still got the innovative within that framework as to what animal comes out at the pack and how do we make it interesting, how do we make that campaign extension work, so.....When it is a simple, give me some more of the same for, it might be for a new product, but within that format, you know, that’s easier for us to do, but it’s still require us new thinking. But if the client come to us with a totally new product, or want to get a totally new campaign, we wouldn’t approach those necessarily differently. So, if you launch a new biscuit company, or innovative biscuit , very little innovation is there versus trying to advertise Uber, or service Air B&B, or a totally new service, no one has got their head around, you wouldn’t approach...coming up with the campaign for each of these products differently really, you would look at what the consumer needs, you would look at ‘how do I get hold of this’, this audience in the same way you’d approach coming up with an answer to both of those business problems, those marketing problems and communication problems in a very similar way. (C22, Managing Director)*

Therefore, the conceptualisation of KIBS project innovativeness in Chapter 4 and Section 9.2 almost matches the interviewees’ perceptions of innovativeness in projects. The above quotation also indicates that there is no direct relationship between the innovativeness in the dimension of new knowledge required to understand the (project) problem itself and the innovativeness in the solution. In addition, interviewees pointed

out that the level of knowledge in (project) problem itself has a close relationship with whether the clients are new or not or whether the service category or service market is new or not; the level of solution innovativeness are related to the service (advertising) ambition of clients and the requirements (time and budget) of clients. Here, the service ambition of clients is associated with the client corporate culture. Some clients prefer more innovative service solution as they expect to make a tremendous impact on their markets, while some other clients have a preference of accepting the service solution which can find a huge amount of successful evidence or successful examples. The requirements of clients determine the time given to the service company and the budget arranged to develop the service solution. In some projects, clients may give a lot of time and money to their service companies to develop the service solution, whereas in some other projects, clients may ask their service companies to complete the project in a limited time period with a limited budget. The former instance gives the service company more chance to develop more innovative and effective solutions when comparing with the latter. Therefore, the service solution innovativeness is closely related to the service ambition of clients and client requirements of developing the service solution. The following figure (9.2) deconstructs KIBS project innovativeness:



**Figure 9.2 KIBS project innovativeness deconstructed**



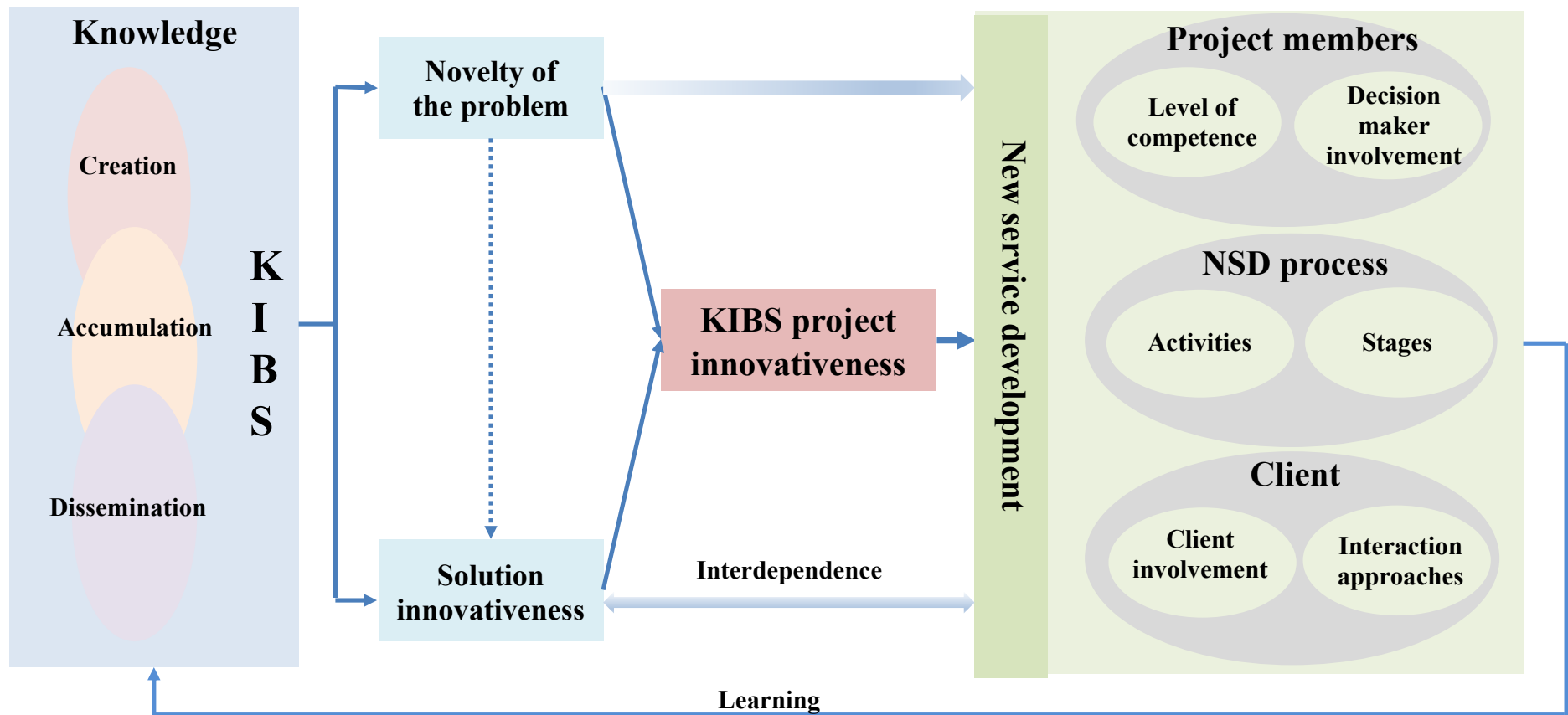
Source: Author

#### **9.4 KIBS project innovativeness influences on new service development**

As the definition of KIBS in Miles et al. (1995), KIBS are the services “*that involved economic activities which are intended to result in the creation, accumulation or dissemination of knowledge*”. This shows the core role of knowledge in KIBS and the three key responsibilities of KIBS: knowledge creation, knowledge accumulation and knowledge dissemination. As illustrated in section 9.3, the innovativeness in the dimension of the knowledge about the (project) problem itself is determined at the beginning of the project, but the innovativeness in the dimension of the knowledge about the solution is only partly decided at the beginning of the process. As described in the conceptual framework in Chapter 6, the new service development process is the

cornerstone of this thesis. The discussion is focused on the process. Therefore, the next purpose of this thesis is to discuss how KIBS project innovativeness influences the new service development process. Combining the review in Chapter 4 and the discussion in Chapter 8, this thesis mainly focuses on discussion of the development activities (“what”), the people involved in projects (“who”), and the co-creation with clients, across the new service development process. Therefore, the following section is to explore how KIBS project innovativeness influences the new service development process in the development stages (activities) involved, the level of competences required from project participants, decision makers’ involvement, co-creation between the service company and the client and the interaction approaches used. The analysis framework of KIBS project innovativeness is depicted in figure 9.3:

Figure 9.3 The analytical framework of KIBS project innovativeness



Source: Author

#### 9.4.1 Influence on new service development stages

In chapter 8, the main stages of developing new services have been identified. Based on our empirical data, the KIBS project innovativeness tends to influence the stages involved, activities performed, people involved, and interaction approaches used in the process.

In projects, the detailed stages involved in the innovation process and the importance of these stages are contingent on the project characteristics. According to the perspective of respondents, the development stages are not the same in different projects. First, all the respondents agreed that the development stages that they described are the main stages of a project development, but this does not mean that all the projects are required to go through all these stages in a linear way. Some stages may be left out in some projects and the sequence of the development process is non-linear.

KIBS project innovativeness influences how advertising firms operate in the innovation process. Whether it is in the project with a high level of project innovativeness or low level of innovativeness, respondents put a great deal of emphasis on obtaining the deep insights of their clients at the beginning of the process. However, in the projects with higher level of innovativeness, the problem definition phase is much more important. As discussed above, the level of KIBS project innovativeness in this research is related to the knowledge of the problem itself and the solution innovativeness. The following is a quotation from an interviewee:

*“I think definitely. The more complicated the project, the more time you would spend in this bit (the preliminary process) to understand the problem. When you get into the execution of it, even the kind of the generation of ideas, you will, by that would be a different process.” (C24, Managing Innovation Partner)*

Usually, in innovative projects, advertising companies almost go through all the innovation stages in more detail than in less innovative projects and tend to have more back and forth steps among each innovation phase. In more routine projects, particularly for the ones which are the extension of previous projects, when advertising companies run such projects, they do not need to spend too much time at the beginning of the innovation process which is the most important part in innovative projects, and just need to have a quick review meeting and then may go into the creative process to

generate required ideas or the media planning stage very directly. In addition, as the innovative project represents more complexity and uncertainty, in most stages project participants need to spend more time when compared with routine projects. The following is an example showing the influence of different types of projects on the development activities required:

*“When you have a long-term client, you know each other, like in a relationship. You can short cut of some of the events, because you might already have an idea, you might already have a platform, and this is just the next execution platform. You know each other very well, so you can sometimes be more honest, be more challenging. On a shorter turn around project, you have to be even more honest, because there is less time to good and dead ends, so everybody has to accept that they are going to work in that way.” (C4, Strategy Director)*

Therefore, the problem definition phase is more important in innovative projects than the projects which have similarities with previous projects. Among projects which have similarities with previous projects, some are ongoing or are continuations of previous projects. For these, advertising companies have already established the idea generation platform with the client, so they know how to operate the project and how to work with the clients, which results in the innovation process involving fewer stages and going faster and more efficiently. In some situations, clients may present a project with which the advertising company is unfamiliar. However, the advertising company may have the experience of coping with a similar problem. As clients are different, they need to personalise the solution to specific client. Despite having the knowledge of that type of advertising problem, this does not mean the advertising company cannot have innovative solutions to old problems. They can integrate the knowledge they have with new technologies, new media channels, or new data sources to create innovative solutions.

Whether the level of the project innovativeness is high or low, almost all the agencies pointed out that they do not have a fixed number of steps. The process is rather flexible in some stages, but they do need to go through some necessary stages in every project and the sequence between some stages is fixed.

## 9.4.2 Influences on project participants

### 9.4.2.1 Influence on the level of competences required

As discussed in Chapter 8, in advertising agencies, the responsibility of new service development is undertaken by cross-functional project teams. The primary project members in most interviewed companies are from the account department, the strategy department, the creative department and the production department. The development of a successful project solution is team work rather than individual work, requiring the close and consistent collaboration between these key involved departments. In a project, the project (account) manager and the directors of each primarily involved department are the key decision makers. They are the key persons to set the direction of the project and the quality of the project solution relies heavily on them. In most cases, the directors of the account, the creative and the strategy departments will have meetings with the client and have meetings internally to decide the development direction and the key issues related to the project. The following quotations describes the main project members involved in a project:

*“The process goes through the agency is, a process a lot like this, every agency got a slight twist on it, but it’s a linea-ish process and you’ve already know when you look at that brief the team that you need on it. So, it’s quite easy to go right. You gonna have the account team already on it, every client has a planner who works with them, so you already got your strategies, so, your planner, your account team, you got the creative director who just assigned to a client anyway and you get a brief, and you kind of ready to go.” (C24, Managing Innovation Partner)*

Although most projects are organised in the same way, in terms of the aspects of team member competencies, involvement of decision maker, and collaboration with different departments in the client side, they are quite different among the projects with different level of project innovativeness. At first, the competences required in different projects are different, for example, the competences required in a digital-led project differ from a TV advertising project. The following is an example to explain this:

*“You might bring in different skill sets, you need different competences, so maybe it’s a digitally-led project, so, you bring in a digital producer or you bring in a social strategist, you need, you could bring in specific expertise where you need it, but I think overall there’s cooperative people around the business and they need to be able to deliver on whatever the project demands, whether it’s a brand new sort of highly innovative project or a*

*continuation of something we do, I think you gotta be able to do both.”*  
(C19, Head of Strategy)

In a company, the projects vary in the level of project innovativeness, which is likely to affect the level of competence required in projects. As discussed in Chapter 4, the level of competence in this thesis is defined as the level or the experience of the knowledge and skills that individuals have. For example, for a certain type of project, some people have more experience and more advanced knowledge of operating it. This means these people have a higher level of competence as they are more experienced. To the new employees or the employees who have less knowledge on this type of project, these experienced people can be regarded as having seniority. Generally, senior staff have a higher level of competence in most projects than junior staff. Similarly, decision makers are more experienced and have more knowledge on a wide range of projects, thus they have a higher level of competence on a lot of projects. Yet, the senior staff we discuss here focus on the project participants rather than decision makers who have a large amount of responsibility on company management. We will have a separate section later to discuss the influence on the involvement of decision makers.

In the empirical evidence, most respondents stated that the complexity and uncertainty a project has will influence how they deploy their employees. Generally, they expressed that the more complex of the project brief, or the more complexity and innovativeness involved in the project, the more effort/inputs from senior staff (project participants) are required. The more challenges that the project involves, the more senior resource is required to develop the service solution. This is because the senior staff have more relevant experience in dealing with the similar project challenges, are good at coordinating different types of issues and conflicts happened in the process and have the authority to undertake risks. Therefore, advertising companies need to make sure these involved senior people have relevant experience. This means when advertising companies select project members, they will check which category the project belongs to. Is it about the car industry, or about the fast-food industry, or the high-tech industry? Then, they will think about who has the relevant experience in that category and whether these people have time to work for the project. However, sometimes, the project that the company faces is completely new to the company as they are exploring a new service market. In such cases, the company will seek whether any employee has previous working experience in the relevant areas. If no, they tend to assign the senior

staff who are experienced and innovative and can match the culture of the client company to take the main responsibility of the project. In addition, respondents pointed out that having senior people involved in every project is necessary, the differences are the extent of their involvement and the number of involved individuals.

In fact, when a company has new clients, they usually put more senior resources into such clients' projects. Since they are the new clients, the advertising company does not have any working experience with them and does not understand their business, which implies more uncertainties involved in. Involving more senior staff in such projects is beneficial to enable the advertising company to have a better understanding of the client businesses and enable the advertising company to have more chances to produce more innovative and effective work to impress their clients, which, in turn, helps the service company keep their clients. As senior staff have more experience in dealing with different types of conflicts with clients, in helping their clients find out their service preference and in helping their company and their clients find the most appropriate way to collaborate, their involvement in new projects is critical to the project success and to retain clients. Here, 'new projects' refers to projects from new clients with which the service company has little experience of working in the similar category. Therefore, the level of project innovativeness in the knowledge of the (project) problem itself is high. When comparing with the projects which are the ongoing projects, the senior resources required in such projects are higher. After the service company finds the appropriate working and new service development patterns with their clients, the work required in projects tends to be more routine, and then, more junior resources are required to conduct the project work. Therefore, when service companies are working with new clients or are exploring new service markets, the innovativeness of the projects for the advertising firm itself that they are involved in is inclined to be high in the dimension of knowledge of the (project) problem itself. This tends to result in more senior resources being required to be put into the development process. This can be illustrated by the following quotations:

*"You might get a new client, I am not gonna put you on the retainer, but I'd be quite interest on your thoughts on how this new brief works. I think those briefs necessarily need probably more senior time on them. Because typically, when you start on a client, you put more senior resource on it, so you understand their business, you set everything down with them, you still*



*have senior resource on it, but then there would be more junior resource to just help stuff done.” (C24, Managing Innovation Partner)*

The above discussion is about the projects have a high level of innovativeness in the (project) problem dimension. As discussed above, another dimension related to KIBS project innovativeness is solution innovativeness. In the section about interviewees' perception of KIBS project innovativeness, we found that the solution innovativeness has a close relationship with the innovation ambition of clients. According to some interviewees' perspective, the team member selection is a process of matching the ambition of the client and the ambition of the team members. Respondents claimed that when the client has a high-level ambition for the service solution, or for the effects that they expect on the market, the service company is likely to assign the employees who are innovative and good at creating innovative advertisements and push their clients to accept more innovative ideas. Therefore, according to their view, advertising companies should design the teams based on the ambition of clients. Matching the ambition of their clients and the project members is the main team member selection criterion. As stated by some interviewees:

*“Like I said at the start, most of our teams are built around retainers, and so, within any retainers, we will have innovative projects and less innovative projects, so, I don't think effects are team selection massively, we tend to try to match ambition levels between client and the team we put on the business.....” (C22, Managing Director)*

*“I got to be honest, we are a relatively large advertising agency, we have 450 people. I probably have 20 strategists. I don't have a particular fragment skill base, so, those 20 general strategists, there are some specialists in social media and digital strategy, and some in shop marketing. By and large, the short lists, I am selecting them on the basis of their personality, perhaps their strategic style, are they more regularises, are they more distinctive? ..... by and large, the strategists are generalists, the selection is on personality, seniority and style.” (C20, Head of Strategy)*

Therefore, KIBS project innovativeness influences how advertising firms allocate their senior resources. The level of experience that employees have is one of the criteria that advertising companies need to consider when they have different types of projects. When projects involve a high level of project innovativeness, advertising firms tend to put more senior resources in them; when projects have a low level of project

innovativeness, advertising firms tend to put more junior resources in them. As illustrated by some interviewees:

*“I think the more complex innovation projects are sometimes challenging because they need more senior resource, or they need more specialists’ resource may be a better word. So, the more technical challenging work you do, the more you need your most experienced kind of designers, developers, project managers, and then specialists like me to kind of lead the client through the process....more senior or more specialists on it [innovative projects]. I think we always, there’s always very senior people who look after in client, which is when you are doing things that are simpler, then, you will put on more junior resource to kind of actually execute it. So, the senior resource will do thinking... and do less in simpler projects, and more junior team will execute it. And that’s typically how retainers for an agency would be ... you get less senior time and more junior time. You have to use the senior time you put in quite wisely.” (C24, Managing Innovation Partner)*

*“But what we like we to do is when we casting for either the project or the business, we like do that thinking about the level of experience, so, for me, for example....I would look at things like who’s the right person in terms of the level of experience, if they had any relative experience in that sector previously, also understanding how the client business functions is, you have some clients that are quite disorganised, therefore you need somebody that can really grab the firm hand, or you have some clients like [Client Company], who are incredibly structured, and everything has to follow a very clear process in every stage of the way. So, we always look to cast things in the best way.” (C4, Managing Director)*

Although, in general, the more innovative and complex the project is, the more effort from senior staff is required, when advertising companies select team members, they do not only just take the innovativeness of the project into consideration. When an advertising agency receives a project, it will consider the size and budget of the project, the complexity of the project, who has the relevant experience, and who has time to get involved in the project. Therefore, assuming a project is a big project, has a large enough budget, and has a very high level of uncertainty in the above two dimensions: the (project) problem itself and the development of creative solution, and assuming senior people who have the relevant experience are available, then, in theory, the advertising agencies will put more senior resources in the project. Also, how many senior resources are put in projects are closely related to how much the client pays the service company. The price of involving senior staff in the process is greater than the price of involving junior staff. As senior staff are more experienced and knowledgeable, the work with a higher level of their involvement tends to have more chances to achieve

success. Sometimes, clients may require more senior staff to be involved in their projects as they have more trust towards senior employees. The following quotation illustrates the influence of budget on the number of senior resources put in the process:

*“Yeah. Automatically, clients pay us for the time that we spend on their business. If they want the senior people on their business 100% of the time, they have to pay for that, then they can have it. On bigger clients, you tend to have them pay you more money, therefore, you pay some more of seniors’ times, because there is more work to do, on smaller clients, there is less work to do cause they are smaller, therefore, they pay less for senior persons’ time.....Normally, with a client, we have an agreement of the team with them. We would sit down with them of .....quite actually, the prices come into it until you get the negotiation in these stages. Normally, first stage is agreeing on the type of people they want in their business, experience they got, skills they got, and the.....and then, you have a conversation with the client about that whether it’s that help, whether they want to pay or not, and obviously, if they don’t want to pay that much, you need to reduce the amount of time that some people spend on their business.” (C21, Managing Director)*

When there is a big project, the advertising company may need to take the following elements into account to decide whether they need to put more senior resources or not:

- The project budget;
- The brief complexity;
- The staff who have the relevant experience;
- The time that the relevant senior staff have;

Therefore, whether there are more senior resources involved in more complex projects is not a simple question as employees’ involvement in a project tends to be influenced by a series of elements. For example, when there is a completely new project, and no senior staff in the company have relevant experience, while only some junior staff have, then, those junior staff will play an important role in the project. However, in an ideal environment, the more complex and innovative is the project, the more senior staff get involved in the project.

#### **9.4.2.2 Influence on decision makers**

Another difference between the people involved in the innovation process in routine and innovative projects is about the involvement of decision makers. Decision makers can be regarded as another type of senior staff in a company, but they have more authority

in making decisions and have more responsibilities in company management. Here, decision makers refer to directors of each department, who have a large amount of responsibility for company and project management and for making the final decision on projects. In advertising companies, the leadership team in every project is constituted by a business lead, a creative director, a strategy director, and possibly a production director. The following quotation describes the composition of project teams:

*“On every single piece of retained business, probably most projects, because we tend not to do really small projects, so, on every single piece of retained business, you have a leadership team, which is made up with a business lead, creative director, and strategic director. And then you have a core team that would be made up with a [handler], a strategist, and a creative and a production as well.” (C4, Managing Director)*

Most interviewees agreed that the more innovativeness the project has, the more involvement or input that they (decision makers) need to put into the process, especially at the front end of the process (at the beginning of the process) as they should take the responsibility of setting the direction of the service development. Generally, in innovative projects-the projects have a high level of innovativeness both in the problem and in the solution dimensions, advertising companies tend to have more opportunities to make a campaign producing great effects on markets, but in the meantime, such projects also let advertising companies have more risks which may produce ineffective solutions. Therefore, decision makers need to pay more attention to such projects to ascertain these are in the right direction all the time across the innovation process. Moreover, putting more involvement in the process can help decision makers have a better understanding of the rationale behind the project. After the projects involve more routine tasks (for example, after the agency has some projects with the new client, the project innovativeness involved in the projects for that client tends to decrease, at least in the project knowledge dimension) the agency can put more junior resources in them. In fact, this is also to create opportunities for junior people to get more practices and to learn from senior persons. The following quotations are some of the relevant examples:

*“I think the higher profile the project is sort of ... innovative...significant, the higher involvement of key decision makers, because everyone is more riding on it. A lot of years, when it comes to more routine, and you can delegate that to more junior people on the checklist is less regular. But I think, on the key projects, input, sort of involvement from major stakeholders is very important, and that’s something we look for.” (C19, Head of Strategy)*

*“But I would say, nothing goes out of the door in [The advertising agency name] without the senior team has approved it. So, it might just be, so, for a small project which is a quite straight forward brief, you would still probably have some, you definitely have the creative director on it, you probably still have the business lead and a strategy director, but our involvement in that process would be a light touch, we just get pulled into on checking everything every so often, I would be work on front of negotiating the fee with the client, the ways of working on all of that kind of stuff throughout the actual process, the strategist and the creative team would be a lot more hands on. For big retained clients in large projects, the leadership team would be a little bit more involved in each step. It might be work by helping to manage the client, helping to sell work, you know, for specific complex brief is, creative director is always very present throughout, and everything is all worked throughout this process we get into idea generation, so, the creative development process here, we have reviews as frequently as notify creative director must always being in those reviews to give the team creation direction.....But, to the question of the level of experience and how the involvement of leadership would get in based on the project newness or innovation, I would say certainly the leadership team would more heavily involved in that. Because you would then, it's worth strategic direction council but be very useful, helping out the strategists develop the strategy. Creative direction would be the same, it would be just paves the parts throughout. And I think from a business leadership point of view, I probably be more involved as well, just ensure we are working with the client in the right way.” (C4, Managing Director)*

*“You tend to get more senior people involved in innovative product projects, because it's normally something new to their client businesses. And I imagine there is more risk associated with it, because the outcome is less certain, while in projects which are, we work with retail, Christmas happens every year, you do Christmas campaign, Christmas is important to retailers, but it doesn't gain the same level of attention that if a retail is launching a new store format, for example. Because senior people tend to get involved in the things which are having the big opportunity to make them look good or have the big opportunity to go wrong, or...” (C21, Managing Director)*

### **9.4.3 Influence on the engagement between the agency and the client**

As discussed in Chapter 3 & 8, client involvement is crucial in the new service development process. This section will discuss how the project innovativeness in KIBS influences the degree of client involvement in the service innovation process. According to interviewees' view, clients should be involved in the development process more often and spend more time on the project with a high degree of project innovativeness. In the projects having a very high degree of project innovativeness, the required solutions by the client are very innovative as in such projects the ambition of clients of the service

solution is high. If clients require an innovative solution which has not seen before or should make great effect on the market, they tend to put more attention on the project. Since service solutions of such projects are very innovative, the risks involved in tend to be higher than in other projects. Having more involvement from clients can help clients understand the idea from their agencies and ensure the solution developed match the solution innovativeness expectation of clients. Therefore, the projects in which clients require a high level of solution innovativeness tend to have more client involvement in the process. As illustrated by the following quotation:

*“I think what’s important is to acknowledge, as an agency, we are always looking for the most innovative solution to whatever the brief is. The client appetite is the important bit here. If a client, and I am talking the most senior client, has less appetite for it, we will still try and be as innovative as possible within that brief, but it would be more contained. We will still put the senior team on it, make sure that’s delivered brilliantly within the confines they give to us. However, if a client is more interested in trying a more innovative approach, something that isn’t approved, something that has never done before, the risk is probably more on the client side than on the agency side. So, we probably approach it in the same way, but the senior client needs to be properly engaged and needs to spend more time on it because they are the ones taking more of the risk.” (C22, Managing Director)*

Also, when a project involves a higher level of project innovativeness or more innovative stuff, it tends to be beneficial for the advertising agency to communicate with the employees from different departments in the client company, such as the designers, the production people, marketing people, and research & development people. This is because if a project involves a high level of project innovativeness, it means the project is not only new to the advertising company, but also the client company requires an innovative solution for the project, having conversations or collecting information from different departments in the client company will help the advertising company have a better understanding of their client businesses and the project problem. Moreover, having conversations with the design people or the production people in the client company may help advertising companies to generate some new approaches to solving the problem. Therefore, having conversations with different departments in the client company can contribute to the development of more innovative solutions. The more complexity and the more unfamiliar the advertising agencies feel with the project, the more tendency that advertising companies have to interact with different types of people in the client company, such as the R&D department, design department, innovation

department, human resource department, etc. The following are some illustrations from interviewees:

*“I think, with more innovative stuff, it’s always interesting to get more information by speaking to designers, speaking to product development, speaking to production people. I think there is more of that, I think it naturally happens when there is a higher demand for innovation or something new, they give you more context. I think even on the other stuff of the school worthwhile trying to get access to that information as well. Maybe that for you find different ways to, you find a school of perspective or an approach you have previously considered. So, I think the ambition should be to get that deep into things, regardless of projects. The reality is that it tends only the more kind of signature things, that you kind get the involvement from the product teams or designers, technical people..... I think the higher the level of innovation, the higher level of newness, the higher interaction you have across the business, which I think it’s more, from my point of view, it’s more interesting. It’s interesting to sit down with designers, or the production team, or the research people, and understand what’s going into it, and understand their purposes, and the intention behind those things, often that helps you to get creative work, better solutions. So, the more involvement with cross-functional teams, different teams of their business, the better.” (C19, Head of Strategy)*

*“I would say it depends on how the client is structured and what access we can get. But we very much like to work in a way whereby we are having the conversation with the right people at the right time. So, in the past, where we have worked on innovation projects new to the world, it’s where we are working with the innovation team that being the marketing function we have worked the liquid developer, packaging developers, you know, we helped develop design bottles and the things like that. You see, we don’t produce bottles, it’s kind of our team working with the packaging team to understand the new nuances of how big the bottle can be, how many can fit in the creative, you know, so, there are lots of information about innovation and new to the products.....yeah, we think it’s important, we want to talk to lots of people within different parts of the company to get a real understanding of combined composition of the branding products.” (C4, Managing Director)*

*“You always, whatever the new thing is, you need to get induction, so, [Client Company] does bring out a new football boots, you have to go and meet the person who design it, and talk to them, and make sure you understand what they are doing.” (C25, Planning Director)*

#### **9.4.3.1 Influence on the client side decision maker**

In addition, in the projects where clients require a highly innovative solution, advertising agencies like to have more conversations with decision makers or senior management team in the client companies. Meanwhile, clients also tend to put more

senior resources into the project or the senior persons who are responsible for the project need to put more time in the projects. Such projects are innovative projects to clients and are important in client companies, thus, senior teams tend to put more attention or time to these projects to ensure the best solution to be co-produced from the service development process. The following quotations illustrate this:

*“we would want to have much more contact with, say the chief marketing officer, during that process, because nobody certain what the outcome is going to be. And it’s a nightmare if you work through the organisation and you have internal stakeholder second guessing. Particularly, we have a philosophy here about..... the things are possible and impossible and the things are relevant to consumers and the thing irrelevant. And the business school orthodoxy, the thing that you do the first is the possible relevant, low hanging .....but we are trying to say, particularly in innovation, the thing you do first is the impossible relevant solution. Because the fact that something is impossible is perceived to be possible by your competitors gives you either business advantages or creative advantages. And when you are doing that, you need to be working the people who have authority within the client organisation, because this is really scary. That (possible and relevant) is easy piece, anybody in your organisation can do it..... so, yes, at the moments of greater innovation, it’s far more important to have close cooperation with senior stakeholders of the client.” (C20, Head of Strategy)*

*“But I am sure, for clients that are launching new sets of products, whatever that might be, new channels, or new audiences, whatever it might be, probably, put more senior people on it, or it has more senior attention.” (C21, Managing Director)*

*“So, I would say it’s a sort of the complexity of the brief would determine the involvement of more seniorities the agency side and the client side.” (C4, Managing Director)*

However, some interviewees pointed out that the involvement of clients is related to their knowledge to the project and the project solution. If the potential solutions or the solutions proposed by their agencies are the areas that they are familiar with or have much knowledge on, they tend to have more opinions in how to revise these ideas or how to further develop these ideas. If they do not have relevant knowledge, it may be difficult for them to provide useful feedback. As stated by one of the interviewees:

*“Even for big clients, everyone structures themselves differently. I suppose a couple of things, one is I think a lot of people offer their opinions on TV adverts because they feel comfortable offering opinions, and actually, a lot of the time, with new and technological things, a lot of the people, a lot of the clients, don’t know what they are looking at, they don’t know how they*



*feedback on.....whereas if you see a TV ad, they'd say, hang on, I've seen a lot of TV ads, I've got opinions on this. The other thing is, increasingly you get the people, CSO, or CTO (Chief technology officer), our clients these days, what sometime happens is people like that will come and brief you, it's a little bit different from your normal client. A lot of clients have head of digital, head of innovation who somebody you work regular with. ... Like I said, the good agency people, they educate themselves, they know what's possible these days. When an agency does come and show an idea for [A client company], they know what they are looking at, they know how to feedback on it. It's kind of the same structure. The best client may have the tricky time when they have to see the CEO to explain...to them, explain the idea, you know, there must sometimes be different processes trying to educate their boss, that must happen, I suppose.” (C25, Planning Director)*

Therefore, when the project is a big innovative project, the client tends to give more attention to it and gets more involved in the process. From the agency manager's view, they think when the client decision makers are more involved in the process, the final product tends to be more innovative and the campaign tends to work better.

#### **9.4.4 Influence on communication approaches**

The KIBS project innovativeness also influences the interaction approaches used to co-create with clients in the new service development process. The more innovativeness the project involves, the interaction approaches used tend to require both the service company and the client engage more in the process. For example, in an innovative project having a high level of project innovativeness or with a complex brief, it is likely to have some workshops at the beginning of the process, while in a project having a low level of project innovativeness or with a simple brief, the service company tends to arrange some presentations at the beginning of the process instead of workshops. Therefore, the projects with higher level of project innovativeness require greater level of interaction between the service company and the client. Since such projects involve more complexity and uncertainty, frequent and more in-depth client involvement will be beneficial to mitigate the uncertainty and increase their understanding to the service company and their projects, which, in turn, contributes to the development of more innovative service solution. As illustrated by some of the interviewees:

*“It depends on what the challenge is. Sometimes, it's the workshops to get the answers together. So, say it's an innovation project where we are creating a new product. Then, generally, there would be a couple of workshops phases first before you had the strategic presentation which is*

*as much getting lots of inputs from different parts of business together go on a journey, so everybody buys the strategy. If it's a more traditional communications brief, so we are not looking to do huge innovation and have multiple sources, then there would probably be a presentation. So, we will have a meeting with the core members of the client team, that's where we would take them through the strategy using sometimes, mode films, a presentation, and that then, they would set with them, maybe for a week, digest it. We have follow-up conversations for questions, and then they will give us feedback or approval. Then, you move on to creative.”* (C4, Strategy Director)

*“If it's a straightforward project, where we are talking about a brand, we already know very well of it, it just something, you know, a new addition to the brand, or something new stuff we talk about, then, it's probably just to find out what we are talking about, you know, that's what makes it more special now, what will excite consumers to buy it, then, you absolutely right, we are talking about a new product or innovation, you know, something that's new to the world. Yeah, the things like the factory tours, sampling products, understanding how the products made, see any initial results from those products, the things as well. So, we are talking about skin care products, I imagine we might work quite closely with the scientists to understand how this skin care before. You know, so we can actually, it's important from the more we can know about brand, understand how it works the better. Because it just helps us to tell more compelling stories to consumers and you know, get them to understand what the product is as well.”* (C4, Managing Director)

Therefore, the above quotations indicate that, when advertising clients are developing a new product or service which is new to the market, it means their advertising agencies tend to have limited knowledge to the advertising product or service. Therefore, it is necessary for advertising companies to have in depth interaction with their clients by attending some workshops or trainings or inductions held by their clients to help them have a better understanding of the advertising product or service. Or when advertising companies work with new clients, they are also likely to have inductions, trainings, or workshops with their clients to get to know the client company and businesses. Sometimes, the client is a retained client, but the project director or manager who communicates with the client has changed, it is also important to make the new director or manager have deep interaction with the client when they get involved in projects. The following are some relevant example of this finding:

*“Understanding their products or services, if it's innovation, it's gonna to take a very longer cause it's more like a new client, so we would have to go along and have, you know, proper inductions or training of what their new product or service is, once it's in the agency, we go through the same*

*process in terms of planning and creative idea, whether it's an existing product or service or innovation.” (C19, Head of Strategy)*

*“you always, whatever the new thing is, you need to get induction, so, [Client Company] does bring out a new football boots, you have to go and meet the person who design it, and talk to them, and make sure you understand what they are doing.” (C25, Planning Director)*

Therefore, the KIBS project innovativeness influences the approaches used to interact between service companies and their clients in the new service development process.

In summary, KIBS project innovativeness is positively associated with the importance given to the problem definition phase, the number of development stages, the level of employee competence, the involvement of decision maker, the collaboration with different departments in the client-side, and the level of interactivity of the communication approaches. Therefore, when comparing innovative projects with routine projects, their differences in how to manage new service development process are listed in the following table (9.1).

**Table 9.4 The comparison between routine projects and innovative projects**

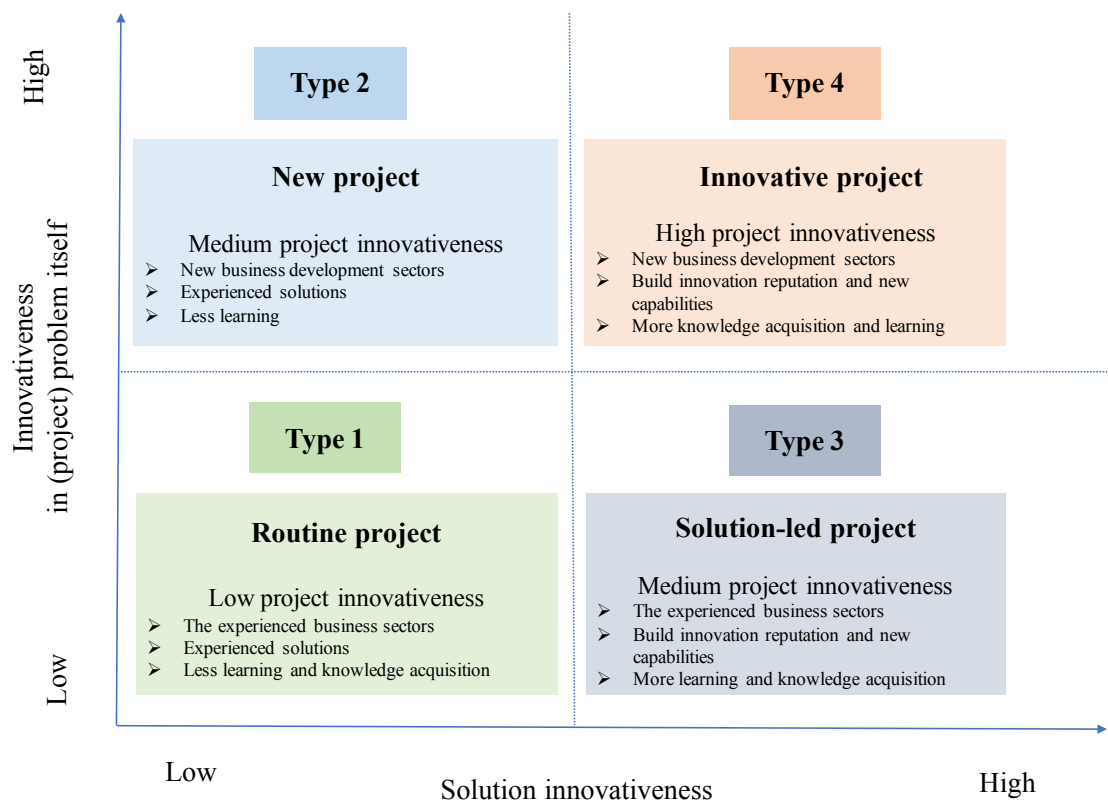
<b>Influences</b>	<b>Innovative projects</b>	<b>Routine projects</b>
<b>The development stages</b>	The project tends to have more stages to go through and puts more emphasis on the problem definition phase.	The project tends to have fewer stages to go through.
<b>Project participants</b>	More effort from senior staff is required.	The involvement from senior staff is much less than that in innovative projects.
	The more innovativeness or newness the project has, the more involvement or input that they (decision makers) need to put into the process.	Less involvement from decision makers.
<b>Co-creation</b>	When the project is a big innovative project, the client tends to give more attention to it and get more involved in the process.	The client company tends to get less involved in the process.
	The more complexity and the more unfamiliar the advertising firms feel with the project, the more tendency that advertising companies have to interact with different types of people in the client company, such as the R&D department, design department, innovation department, human resource department, etc.	When the project is a routine project with low level of uncertainty on the (project) problem itself and low level of solution innovativeness, the advertising company tends to have less interaction with other departments in the client company.
	In the project with high level of project innovativeness, more senior resources from the client company are put into the process.	When the project has a low level of project innovativeness, the decision makers in the client side tend to reduce their involvement in the process and give more freedom of making decisions to their subordinates.
<b>Communication Approaches</b>	The more innovativeness the project involves, the interaction approaches utilised is inclined to require more interaction from both the agency and the client.	The project with low level of project innovativeness, the communication approaches used tend to require less interaction between the agency and the client.

Source: Author

## 9.5 Typology of project development in KIBS

The above table only compares two ends in the spectrum of KIBS project innovativeness: the first having a very low level of innovativeness in both dimensions and the other having a very high level of innovativeness in both dimensions. However, in fact, when considering the extreme conditions of the two dimensions, there are generally four different types of projects in a KIBS firm: routine project, new project, solution-led project, innovative project. This typology could help companies classify their projects into different categories and manage these projects more effectively and efficiently in terms of how to allocate company resources, how to manage the knowledge acquisition and learning, and how to build company innovation reputation and capacity.

**Figure 9.4 Typology of project development in a KIBS firm**



Source: Author

### Type 1: Routine project

The first type of project development is categorised as **routine project** which has low innovativeness in both dimensions: the (project) problem itself and the solution, thus the

projects in this category have the lowest project innovativeness. As discussed above, in such projects, service providers have much knowledge and experience in completing the project tasks, which implies that the uncertainty and risks involved in tend to lower than the other three types of projects. Therefore, the new service development stages are more streamlined; the level of competence of project participants is lower; the decision makers' involvement is lower; the co-creation required between the service provider and the client also tends to be lower. The projects in this category are usually belong to experienced businesses areas that the service company are expert at. The solution developed for these projects is usually not innovative but effective as it can find much evidence from the market. Compared with the other three types of projects, the new knowledge acquired from clients and other sources and the learning from the innovation process tend to be lower than other three types projects.

### **Type 2: New project**

The second type of project development is categorised as **new project** which has high novelty in the (project) problem itself and low solution innovativeness. It involves medium project innovativeness and the main project innovativeness derives from the (project) problem itself. In such projects, the key is to understand the project problem, the service clients, the service product, the service industry, or the service market. Therefore, how to collect information from clients and external organisations to help the firm understand the project plays a paramount role in influencing the project performance, which implies that the service company is likely to acquire much knowledge about new business sectors. The projects categorised into this type tend to indicate the new business areas that the service provider is exploring.

### **Type 3: Solution-led project**

The third type of project development is categorised as **solution-led project** which has low innovativeness in the (project) problem itself and high solution innovativeness. It also involves medium project innovativeness, yet the main project innovativeness derives from solution development, which is different from type 2. Therefore, in such projects, the key is in how to develop innovative solutions, which signifies that the company tends to assign experienced staff in developing innovative solutions in these business sectors to such projects. Generally, the projects in this category tend to belong

to the service company's experienced business sectors. As the solution innovativeness of these projects is very high, the projects in these categories could help companies build innovation reputation and develop new capabilities. The learning required in this type tends to be higher than that in type 1.

#### **Type 4: Innovative project**

The last type of project development is categorised as **innovative project** which has high innovativeness in both dimensions. This means that it involves very high level of project innovativeness. In fact, the projects in this quadrant show the new business areas that the service provider is aiming for. Because the projects in the category belong to the new business areas and required innovative solutions, which signifies that the service company intends to build their reputation in this area. Thus, the service company should pay more attention to this type of projects. The knowledge acquired from clients and outside and the learning from the innovation process tend to be the highest.

Therefore, companies should pay more attention to Type 2, Type 3 and Type 4 projects as the projects involved in these three types possess the opportunities to enlarge the companies' businesses and build innovative reputation, which in turn attracts more businesses to the service company. This is partly in consistent with the argument of some scholars (Nelson and Winter, 2002; Slater and Tether, 2014; Strambach, 2008) in terms of the importance of new projects in companies.

Since in advertising firms, most of their projects tend to be classified into Type 1-routine projects, Type 1 projects play a crucial role in a company's business development. This means advertising firms also need to know how to manage routine projects more efficiently and effectively.

Using the above typology to categorise a service, providers can easily identify the business areas that the service company is exploring, or can explore in the future. It can be used to examine which business areas that they are good at. This is likely to help service companies manage their resource and to maximise the usability of the companies' resources.

## 9.6 Conclusion

The analysis in this section has addressed the research question about how project innovativeness in KIBS influences the new service development process in the aspects of the stages (activities) involved, the level of competences required from project members, the engagement between service companies and clients, the involvement from decision makers of both parties, and the interaction approaches used in the process.

Based on the interviewees' accounts, the author shaped the KIBS project innovativeness construct. The KIBS project innovativeness is closely related to the complexity of the client brief. The complexity of the brief can be divided into two dimensions: the service company's knowledge in the dimensions of the (project) problem itself and the potential (expected) solution innovativeness. The knowledge of the (project) problem is associated with the company knowledge about the service market, service category and the service product. The expected solution innovativeness is greatly influenced by the innovation ambition of the client and the requirements from the client, particularly in the aspects of time and money.

In the course of this research, it becomes apparent that the resource required varies in projects. The findings in this chapter demonstrate that the resource required in projects varies not just according to the newness of the solution, but also the market, the product, and the category of the advertising product. These two elements are not necessary related. They are separate.

In addition, this chapter investigated how KIBS project innovativeness influences the new service development process. In the project having a higher level of project innovativeness, advertising companies tend to have more new service development stages to go through and in more detail, put more senior resources in the process, have more involvement from decision makers from both parties, have more involvement from clients, and use the more interactive communication approaches to develop the work – particularly at the beginning of the process.

Based on the conceptualisation and the analysis of KIBS project innovativeness, this chapter developed a new typology to help firms classify their projects, including four different types of projects: routine project, new project, solution-led project, and innovative project.



## **10 Discussion and Conclusion**

### **10.1 Introduction**

With the importance of service innovation recognised by an increasing number of people, research studying service innovation or new service development has seen a considerable growth in the last two decades. Yet there is little academic knowledge available about the nature of innovation and innovation related issues (innovation process, co-creation, innovation process management, and learning in the innovation process) in the creative industries. Thus, this study sets out to investigate the nature of advertising innovation and the conceptualisation of advertising innovation dimensions.

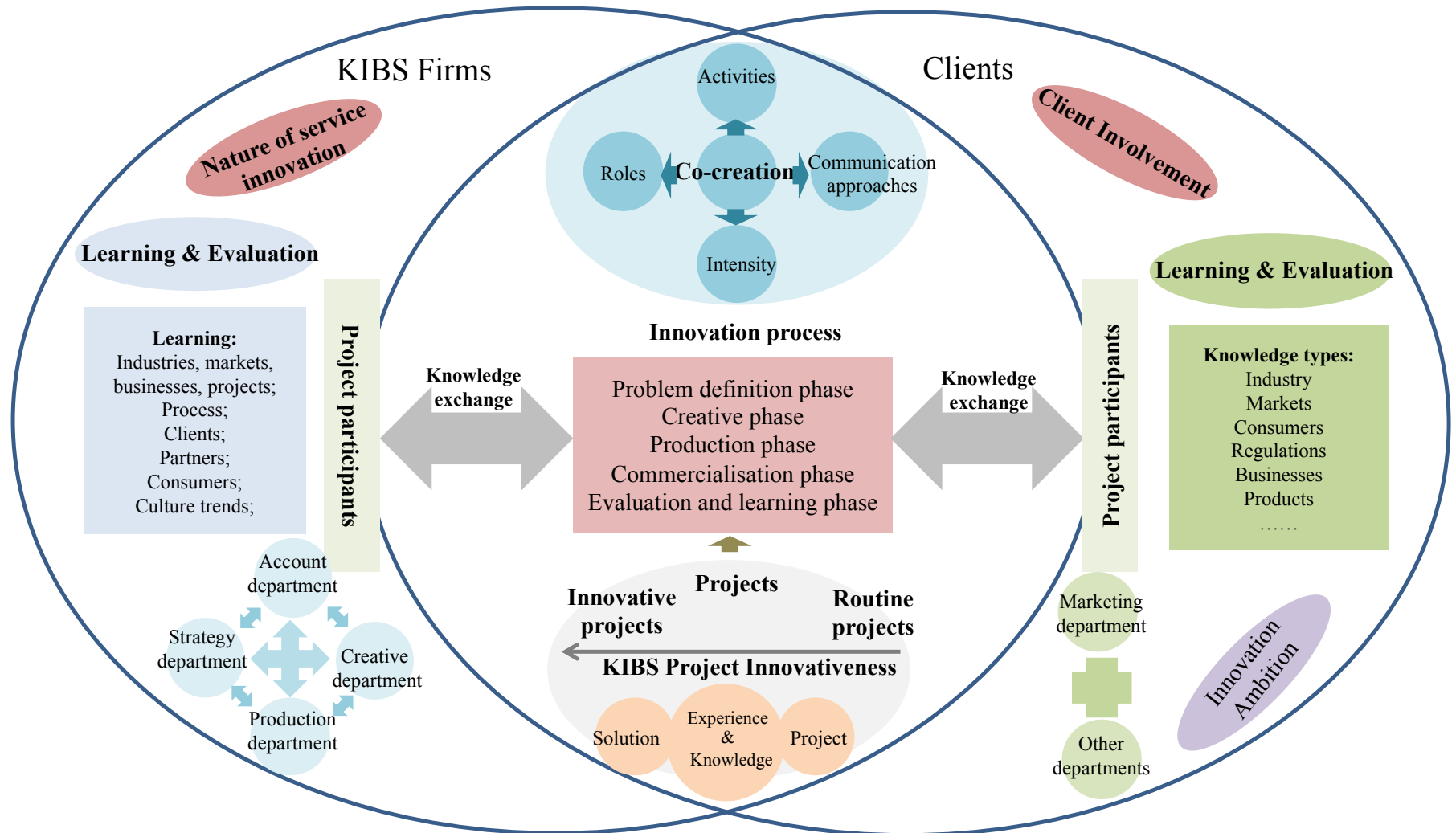
Despite the significant progress made by previous literature about enhancing our understanding of service innovation process, the service innovation process remains underdeveloped especially in how technological development is changing the way that companies operate their processes. Therefore, this research conceptualises the service innovation process in the advertising industry and creates new service development model before moving on to the discussion of other issues related to the innovation process. Based on the literature on the importance of customer involvement, co-creation and co-production, this research redefines co-creation in KIBS and differentiates it from co-production. Based on the definition of co-creation, we explain how agencies involve clients in the innovation process to co-create. Additionally, we propose the concept of KIBS project innovativeness and discuss how it influences the innovation process and co-creation in the aspects of activities performed and the level of project participants' competences. Owing to the importance of knowledge to KIBS and the characteristic of learning-by-doing in KIBS, this research also explores how advertising agencies and clients learn in the innovation process.

Section 10.2 revisits the research questions based on the results in Chapter 7-9. Section 10.3 discusses the theoretical contributions and practical implications. Then, the last section (10.4) ends with the discussion of the research limitations and the future research directions.

## **10.2 Review of key findings**

Based on the literature on service innovation, innovation process, co-creation, and project innovativeness, the author developed a conceptual framework in Section 5.2 to link the literature, research questions and research goals together. After analysing the empirical data, the author revised some elements of the conceptual framework to make it reflect the findings of this thesis, for instance, the change of the innovation process. The revised conceptual framework is as follows.

Figure 10.1 The revised conceptual framework



Source: Author

### **10.2.1 The nature of advertising innovation and service innovation dimensions**

The first aim of this research is to identify how advertising managers perceive advertising innovation and to conceptualise the innovative dimensions of advertising innovation. To do this, this paper sets out to address the research questions: How do advertising managers perceive advertising innovation? What are service innovation dimensions in advertising?

The analysis of 45 interviews reveals a detailed picture of how advertising managers perceive advertising innovation and how far the den Hertog model of service innovation dimensions applies into the advertising industry. The empirical evidence reveals that the advertising innovation can be defined as doing differently from what others are doing or the creation of a new (completely new or slightly different) product, solution, or campaign that has not been seen before to interact with consumers. Such definition reflects that advertising managers' perception of advertising innovation is consistent with the common understanding of service innovation: "doing new or improved things" or "doing things in a new or improved way" (Miles, 2009).

Moving on from the understanding of advertising innovation, this paper identifies 10 main features of advertising innovation and these features can largely fit into den Hertog's service innovation model. The key features include: service concept, creative content, delivery channels, technology, data, client interface, consumer interface, changes in value chain, changes in organisation, and revenue model. Compared with den Hertog's model, the innovation elements identified are elaborated and take the unique characteristics of advertising services into consideration. In advertising services, content innovation plays a crucial role in advertising innovation and is a sub-dimension of new service concept; data, delivery channel, and technology are the new added innovation dimensions. Unlike most other services, advertising companies have two-sided interface: client interface and consumer interface. Both are the important elements in advertising innovation, which reflects the importance of clients and consumers in the innovation process. Therefore, given these differences, a new elaborated model (Figure 7.1) is proposed based on den Hertog's 6-dimension model. The model gives us a more comprehensive understanding of service innovation dimensions in advertising.

As discussed in Chapter 7, the approaches of creating innovative advertising services are by making different combinations of advertising innovation dimensions to create new and effective advertisements. Therefore, the nature of advertising innovation is mainly dependent on the degree of newness in the involved dimensions. The view of regarding innovation as the combination of different innovative elements is in line with the argument of Schumpeter (1939) and James Webb Young.

Due to the importance of ideas in advertisements, the innovation dimension-content plays the most important role in advertising innovation, which reflects the significance of content innovation in advertising firms. This is partly related to the nature of services in creative industries (Chaptain et al., 2010, Stoneman, 2009). Actually, content innovation exists in other industries, such as the design industry, the coffee industry, etc. Therefore, this research demonstrates the important role of content innovation and explores the nature of advertising innovation. Apart from content innovation, innovation in delivery channels is another significant innovation dimension in advertising. This is related to the accelerating growth of new media channels. In fact, the importance of content innovation and delivery channels in advertising innovation corresponds to the key components of advertising: idea and delivery channels. The other two dimensions mentioned frequently by interviewees are the innovation in client interface and consumer interface. Technology is also recognised as an important dimension in advertising innovation. With the rapid development of technology, technology-driven innovation is playing an increasingly important role in facilitating advertising innovation. This signifies the trend of investment in technology to facilitate advertising innovation in advertising companies.

## **10.2.2 Innovation process and co-creation**

### ***10.2.2.1 Innovation process and new service development model***

The second objective of this research is to conceptualise the new service development process. To fulfil this objective, this paper needs to address the research questions: How do firms develop new services? What is the innovation process? How does the process shape the creativity of the final service solution/product?

This research identifies five phases of the innovation process in advertising companies, including problem definition phase, the idea conceptualisation phase (creative process),

the (idea) production phase, the commercialisation phase, and the evaluation and learning phase. This service innovation process supports the literature on new service development based on other industries (Aarikka-Stenroos and Jaakkola, 2012; Gadrey and Gallouj, 1998; Sundbo, 1997) to a large extent. However, there are some differences. In the prior literature, most of the innovation processes end at the stage of commercialisation, whereas, in this thesis, the process ends at the stage of evaluation and learning, which is related to the characteristics of KIBS firms and reflects the changes of advanced technology and the trend of digitalisation bringing to the service innovation process. Indeed, this implies the increasing importance of learning and knowledge transferring between KIBS firms and their clients. By adding the evaluation and learning innovation phase, the importance of how professionals in KIBS firms develop their skills is highlighted (Hansen et al., 2005; Miles et al., 1995). For example, the approach that most knowledge-intensive firms use to develop their human capital is by the means of recruitment, learning and accumulating experience from the recursive practice of craft skills in different situations, particularly in the professional firms concentrating on creativity and innovation (Constant, 2000; Cook and Brown, 1999; Salter and Tether, 2014).

Each of the innovation phase can be broken down to several detailed stages: client brief, understanding client business, problem diagnosis, strategy planning, creative brief, idea generation, idea testing, idea selecting, idea amplification, production, marketing test, launching, evaluation, and learning, which illuminates the innovation process in more detail. Compared with the existing new service development processes (Alam and Perry, 2002; Burgoyne, 2009), the stages identified here put more emphasis on the importance of understanding client business, problem diagnosis, strategy planning, and learning and evaluation. This reflects the bespoke essence of KIBS and the nature of learning-by-doing (Hansen et al., 2005; Miles et al., 1995). Also, this reveals the importance of the problem definition phase in KIBS. As the core of KIBS is the provision of professional knowledge to help clients solve their problems, diagnosing the right problem is the first step of generating the right, innovative and effective solution ideas.

Although the new service development model depicted looks like a linear process, it is essentially rather complex and involves many back and forth stages. Most times, the

involved companies need to go through most of the stages developed, yet they do not need to go through them one by one.

A closer examination of the processes and stages described by respondents reveals the three transmutations occurring in the new service development process, which are transmutations of brief to strategy, strategy to creative idea, and creative idea to innovative advertisement. This is in line with the claim of Nov and Jones (2003) of the three main transformations occurring in new advertisement development process. Among these three transmutations, strategy plays the role of shaping the route of how to develop creative ideas. It is hard for creative teams to develop creative ideas with an uninspiring strategy. The creative idea is the core of the whole advertising solution. It undertakes a large part of the responsibility of developing innovative advertisement. Production represents how to bring the idea into life. A great idea will end up with a boring and dull advertising solution or advertisement if its production is not good enough to realise the creative idea. Therefore, strategy, idea and production are interdependent components in a new service development process and are the backbones contributing to the innovativeness of the final advertisement. Particularly in the KIBS firms whose clients are the driven force of new service development, the importance of strategy in the new service development process needs to be highlighted. However, in the literature concerning to new service development process, only a small amount of research has pointed out the importance of strategy in the new service development process generated by them, for example, the research conducted by Bowers (1989) and Hull and Tidd (2003).

#### ***10.2.2.2 Co-creation***

Based on the conceptualisation of new service development model, the next objective is to identify the key activities performed by and the roles of advertising clients and advertising suppliers in the interactive innovation process as well as how co-creation changes over the course of the service encounter. Therefore, to achieve these aims, the research question that needs to be addressed is: How do KIBS firms co-create with clients in the innovation process?

Although a substantial number of academic studies (e.g. Durugbo and Pawar, 2014; Hu et al., 2013; Kristensson et al., 2008; Payne et al., 2008; Prahalad and Ramaswamy,

2004a; Sanders and Simons, 2009; Voorberg et al., 2015, etc.) have discussed the issues related to co-creation, significant theory generation and detailed explanation of their co-creation behaviour and activities remain underdeveloped. This research contributes to the reconceptualisation of co-creation. It is demonstrated that co-creation involves various degrees of active involvement of customers in a range of upstream activities in the innovation process, such as creation/ideation, design, elaboration, production, and the such, to create something new together. Compared with most existing co-creation definitions (e.g. Bonsu and Darmody, 2008; Gummesson et al., 2014; Konu and Komppula, 2016; Prahalad and Ramaswamy, 2004a; Sanders and Stappers, 2008; Perks et al., 2012; Zwass, 2010; etc.), the conceptualisation of co-creation in this thesis points out the difference between co-creation and co-production and that co-creation is a dynamic process and the degree of co-creation varies across stages. Also, the co-creation definition here explicitly takes innovation concepts into consideration, which is in line with some existing definitions (e.g. Gummesson et al., 2014; Kristensson et al., 2008; Perks et al., 2012; Prahalad and Ramaswamy, 2004a; Sanders and Stappers, 2008). The research sheds light on how co-creation changes over the course of the service encounter, by identifying the co-creation activities and tasks and elaborating the roles of service firms and their clients in each stage of the service production. It explores in detail of how advertising agencies and clients co-create to develop innovative solutions, which provides a more comprehensive map of how to co-create between service providers and clients. This study explicitly points out that the co-creation activities vary across stages, which partly supports the argument of Gummesson et al. (2012) and Sheth and Uslay (2007). The activities performed by service providers and clients are clearly listed in Chapter 8.

This study reveals that clients undertake different roles among different stages and their role is contingent on the task performed. In the problem definition phase, clients are the co-diagnoser and strategy co-developer. In the creative process (the idea generation phase), they primarily play the co-selector role. Only in very few projects, they may need to undertake the co-creator role of developing innovative ideas. In the production phase, clients act as the co-amplifier of the core idea. In the evaluation and learning phase, clients are the co-evaluator of the whole project. Therefore, they are the problem co-diagnoser, strategy co-developer, idea co-selector (rarely acting as co-creator), idea co-amplifier, co-decider of marketing test, and project co-evaluator. The roles



conceptualised have some similarities with the roles conceptualised by Aarikka-Stenroos and Jaakkola (2012). Yet, the findings of this study point out not only the roles of clients in corresponding stages, but also the activities performed by clients, and the roles played and activities performed by service providers. This provides researchers and practitioners a more comprehensive picture of the roles played and activities performed by service providers and clients in the innovation process.

This research reveals that the intensity of co-creation follows a “W”- shaped curve pattern across the innovation process, which goes beyond the existing literature (Doroshenko, 2012; Gadrey and Gallouj, 1998; Lehrer et al., 2012; Sundbo, 1997). The co-creation intensity reaches the highest point at the beginning-the problem diagnosis stage, then drops to a quite low level in the idea generation stage in the creative phase; following the creative phase, the co-creation between the advertising company and the client increases a little before it drops to the lowest level in the production stage; after the production of the service solution, the co-creation intensity tends to reach another peak in the evaluation and learning phase. All these reflect that co-creation could happen in every innovation phase, but the intensity of such co-creation behaviour varies from innovation phases. Therefore, clients should have a clear idea of when they should be more involved in the process and when they need to give their agencies space and freedom to develop their creativity. Although the co-creation pattern proposed here is different from the existing literature of client involvement intensity in the innovation process, there are some similarities of the intensity of co-creation in certain stages. For instance, this study supports the findings of Gadrey and Gallouj (1998) and Doroshenko (2012) that service providers and clients have the highest degree of interaction in the problem diagnosis (preliminary) phase. Also, the finding here confirms the conclusions of Lehrer et al., (2012). Both studies find out that in the generation of creative solution stage, clients have very low involvement in the process, which highlights the importance of the co-creation timing. Having too much co-creation in certain stages may result in less innovative and qualified solutions. In the “W”- shaped curve pattern, service providers and clients have the lowest co-creation degree in the production stage, which supports the reconceptualisation of co-creation in Chapter 3. In this thesis, the co-creation between service providers and clients is to create something new together. Yet, when the progress comes to the production stage, most elements for developing the

innovative solution have already been confirmed. The client role focuses more on checking the progress regularly rather than co-creating.

This study identifies five primary used types of interaction approaches between service providers and clients: factory visits or induction days, workshops, face-to-face meetings, video conferences or phone call meetings, and phone calls and emails. Apart from the factory visits, induction days and workshops, service providers can use any other interaction approaches listed above to interact with their clients in any innovation phases, yet the primary approach and the frequency of the approaches used vary with the innovation phases. Factory visits, induction days and workshops are usually used in the problem definition phase. Indeed, the interaction approaches used in different innovation phases reflect the co-creation tendency between the service provider and the client. Among these interaction approaches, workshops require the highest engagement from both the service provider and the client, while emails require the least from them. Meeting is the most frequently used approach to enable the co-creation between service providers and clients.

As discussed in sections 8.2.13, 8.4 and 8.10, the importance of learning and evaluation is increasingly acknowledged by researchers and practitioners and it is a part of the service innovation process. In the innovation process, learning is throughout the process, including during the process and after the process. Most learning happening before the learning and evaluation phase is the routine personal behaviour and remains mostly at the individual level. After the service product is produced, usually, the service company will have a learning and evaluation phase to evaluate and learn from the project. Such learning is often carried out by formal review sessions and is to facilitate the new knowledge acquired from the process to be transferred between people and across the company. Indeed, this corresponds to the nature of KIBS: learning by doing (Miles et al., 1995, Asheim and Coenen, 2005).

### **10.2.3 Influences of KIBS project innovativeness on the innovation process**

Another objective of this study is to conceptualise KIBS project innovativeness and explore how it influences the new service development in the areas of new service development stages, project participants, co-creation, and communication approaches. Therefore, the research question is: How does the level of project innovativeness

influence the management of the innovation process and of co-creation between advertising firms and clients?

Advertising firms are project-based organisations (Grabher, 2002). The perception of advertising managers on KIBS project innovativeness supports the conceptualisation of KIBS project innovativeness at the beginning of Chapter 9. KIBS project innovativeness is defined as the level of novel knowledge required to understand the problem itself and to develop innovative solution (solution innovativeness). The KIBS project innovativeness proposed in this thesis refers to the innovativeness to the service firm. It is co-determined by the two dimensions. The knowledge of the (project) problem itself is related to the service market, the service category, the service client and the service product. Solution innovativeness is closely related to the innovation capability of the firm, the innovation ambition of clients and the requirements of clients in the areas of time and money. Compared with the existing classifications of innovative and routine projects (Besner and Hobbs, 2008; Nikolova et al., 2010) or the existing perception of project innovativeness, the KIBS project innovativeness conceptualised in this thesis is different as it not only takes the innovativeness of final product or solution into consideration, but also considers the new knowledge required to understand the project problem itself, which reflects the nature of KIBS firms-using professional knowledge to help clients develop innovative and effective solutions (Miles, 2005; Miles et al., 1995). The conceptualisation reflects the importance of the knowledge of the project problem and the potential solution in KIBS and implies that there is no direct relationship between new problems and new solutions. A project with new problem can require a routine solution; in a similar vein, a project with old problem may require an innovative solution. The solution innovativeness proposed in this research is related to the innovativeness in the innovation dimensions proposed for advertising innovation in Chapter 7.

The findings of this research reveal that the influences of KIBS project innovativeness in the new service development process vary across projects. Advertising agencies put a great deal of emphasis on the problem definition phase (client brief, understanding client business, problem diagnosis, strategy planning, creative briefing), regardless of the projects with high level or low level of project innovativeness. However, the importance of problem definition phase is greater in the innovative project than in the

routine project. In routine projects, the agency has already had some degree of knowledge of the project problem or had the semi-finished solutions for the project. Sometimes, if the project is the extension of previous projects, the agency tends to have already had the knowledge required to develop the solution or service, thereby leading to less time to be put in the problem definition phase when compared with the innovative project in which the agency has little knowledge of the client, of the project, of the involved technology, market, or behaviour changes. This finding partly supports the argument of Rochford and Rudelius (1997): the innovativeness involved in product development influences the emphasis put on certain development stages. The key development stages of how to develop new service have identified, yet the innovation activities undertaken in developing innovation solutions in different types of projects are different. In innovative projects, the development stages involved tend to be more than the stages involved in routine projects. Idea generation, production, and implementation are given heavy emphasis in most projects, while understanding client business, problem diagnosis, strategy planning, testing, and idea amplification may be left out in some regular projects, particularly in the ones which are the extension of previous projects.

Regarding the people in the innovation process, cross-functional teams are the fundamental format to conduct the work (PRINCE2, 2017). KIBS project innovativeness influences the level of competences required from project participants, the involvement of decision makers, the involvement of client, and the collaboration with different departments in the client side, in the new service development process. Ideally, KIBS project innovativeness exhibits a positive association with the level of competence of team members. This is because in the advertising industry, the problem solving and creative capabilities reside in employees. In the project with high level of project innovativeness, the capability that team members need to possess tends to be higher. Therefore, the assignment of project participants is related to the project innovativeness. It also shows a positive relationship with the involvement of decision maker, the level of co-creation with clients, and even the collaboration with different departments in the client-side. This partly supports the view of Olson et al. (1995): developing a higher level of new and innovative products requires a more participative development structure. Furthermore, having more decision maker involvement in

innovative projects enables the agency and the client to minimise the potential risks in the new service development process.

A project with high level of project innovativeness has more touchpoints with the client organisation, which partly supports the perspective of Verma et al. (2012). Having a high level of project innovativeness signifies a high level of complexity and uncertainty involved in the project. Under the circumstances, having frequent and more in-depth client involvement in the innovation process is the way to increase the service firm's understanding of their client and the project, thereby leading to the mitigation of project uncertainty.

Overall, KIBS project innovativeness has positive influences on the importance given to the problem definition phase, the number of development stages, the level of employee competence, the involvement of decision maker, the collaboration with different departments in the client-side, and the level of interactivity of the communication approaches.

Based on the conceptualisation of KIBS project innovativeness and the exploration of KIBS project innovativeness influences on new service development, this research develops a typology of project development in KIBS firms, which includes four types of projects: routine project, new project, solution-led project, and innovative project. This typology can help KIBS firms manage their resources and the risks involved in their projects. Additionally, it can assist firms in identifying the markets that they are experienced and the markets they need to build their innovation reputation. Although advertising firms need to pay more attention to the new projects, solution-led projects, and innovative projects to help them build their reputation and explore new business opportunities, routine projects also play an important role in firms. This indicates that firms need to know how to manage their routine projects more efficiently and effectively.

### **10.3 Theoretical contributions and practical implications**

#### **10.3.1 Theoretical and conceptual contributions**

##### **Nature of service innovation**

The first theoretical contribution of this research relates to the conceptualisation of advertising innovation and advertising innovation dimensions in Chapter 7. The innovation research in the advertising industry has been underdeveloped, thus the conceptualisation in this study can be regarded as an initial attempt. The conceptualisation of advertising innovation is in line with the common understanding of service innovation. The conceptualisation of advertising innovation dimensions builds upon den Hertog et al. (2010), yet it is in a more elaborated degree and takes the advertising characteristics into consideration. Through the model, both scholars and practitioners can have a more comprehensive understanding of how to develop more innovative services in advertising firms. Also, the model contributes to the design of standard innovation surveys in understanding the nature of innovation in C-KIBS.

### **Innovation process**

The second theoretical contribution of this study is the conceptual framework developed in Chapter 6. It uses the innovation process developed as a core component of the framework to discuss the interaction between service providers and clients in the aspects of co-creation, knowledge transferring and learning from projects.

In Chapter 8, this study has identified advertising innovation process, the detailed stages of new service development process and how the creativity locates in these stages. The applicability of the process is not limited to the advertising industry, but also can be applied in other creative industries or other KIBS industries. The findings have identified the main activities performed in each stage along the process and revealed the complicated nature of the process – a non-linear process. The study further investigates the service innovation process by incorporating the current changes occurring in the advertising industry. When comparing with the established literature concerning service innovation process (Aarikka-Stenroos and Jaakkola, 2012; Gadrey and Gallouj, 1998; Sundbo, 1997), this study highlights the importance of problem definition phase and the evaluation and learning phase in the current new service development process. Integrating the learning and evaluation phase into the innovation process is consistent with the importance of learning in KIBS industries and reflects more evaluation and learning opportunities brought by technologies. In addition, our study shows that the innovativeness of the service product from the process is the synergistic effect of a

number of components in the process, mainly concerned with strategy, idea and production.

### **Co-creation**

The third contribution of this study is the conceptualisation of co-creation and the identification of the sub-activities constituting co-creation across the service innovation process and new service development stages. It clarifies the role of clients and the tasks they perform - problem co-diagnoser, strategy co-developer, idea co-selector (but generally not co-creator), idea co-amplifier, marketing test co-decider, and project co-evaluator and identifies the 'W-shaped' curve pattern of the co-creation intensity - across the service development process. This research supports earlier findings (Doroshenko, 2012; Gadrey and Gallouj, 1998) by showing that service suppliers and clients have the most intense interaction at the beginning of the process. However, our findings emphasise the importance of client co-creation at the beginning of the process and explicitly illuminate why, how and when to co-create with each other. By getting involved in the process earlier, clients tend to feel it easier to understand the creative ideas generated by their agency. However, client co-creation in the idea generation stage is not necessary. Having too much co-creation activities in the idea generation stage tends to develop uncreative ideas. The intensive co-creation at the end of the innovation process is necessary for the new service development. Learning and evaluation is another important phase of KIBS firms' innovation process. Co-creation from both involved parties in the learning and evaluation phase is conducive to keeping a good relationship and future cooperation. Most learning in the individual level happens automatically and does not need any mechanism. By contrast, the learning in the company level requires the assistance of mechanisms to institutionalise the individual learning and to share personal level learning across the company.

### **KIBS project innovativeness**

The fourth contribution is related to the conceptualisation of KIBS project innovativeness and the exploration of its influences on the new service development process in the areas of new service development stages, the level of competence required from project members and decision makers' involvement as well as the co-creation across the process. Therefore, one of the most important contributions of this

study is that it differentiates the influence of the project with high level of project innovativeness (innovative projects) and routine projects and propose a typology to classify different types of projects in KIBS firms. Overall, KIBS project innovativeness is positively associated with the importance given to the problem definition phase, the number of development stages, the senior resource put into the process, the involvement of decision maker, and the collaboration with different departments in the client-side. To the best of the author's knowledge, this study is the first to take both the new knowledge required to understand the project problem itself, and that required for the solution, into account to determine KIBS project innovativeness and is the first to explore the influences of such KIBS project innovativeness on the new service development process. In addition, the definition and articulation of KIBS project innovativeness in this thesis provide a possible approach to measuring innovativeness in advertising.

### **10.3.2 Practical implications**

The analysis of this research provides valuable and useful practical lessons for both advertising firms and their clients. First, this study contributes to help both practitioners and researchers have a comprehensive understanding of advertising innovation. The findings contribute to assisting advertising managers in how to develop innovative service products or services and highlight the importance of content innovation, delivery channel innovation and technology driven innovation. Content and delivery channels are the two important elements in advertisements. Technology not only helps advertising employees work more efficiently and effectively, but also occupies an increasingly important role in innovative service products. Therefore, advertising companies should invest more in creativity and technology training programmes to help creative people stay abreast with technology development and to nurture their creativity capability. Advertising firms also need to support creative people to attend some big advertising events or competitions to help them nurture their innovation taste and learn from other creative professionals.

Also, service innovation dimensions conceptualised in this thesis pose the “*community innovation survey*” into question in general. The survey investigates product innovation, process innovation, marketing innovation, organisation innovation, and relationship with clients, yet, based on the findings in this research, the current survey cannot



include all the types of innovation in advertising. This suggests that the CIS survey may need to include other types of innovation, such as the innovation in revenue models, to explore the innovation in C-KIBS. But, the implication of designing innovation survey is complicated and needs to be further explicated.

In addition, the new service development process is not a linear process and is rather complicated. The findings of the research suggest that the innovativeness of the new service development is triggered by the ambitions of clients, thus in order to stimulate clients to accept more innovative service ideas, involving clients early in the process tends to be better. As different clients may have different types of working style, the new service development process tends to be more or less different among different clients, indicating that there is much flexibility of new service development stages and the process is characterised by trial and error. Service providers learn from each client and apply what they learn from the client into the same client's future projects' new service development process. As the innovativeness of idea is guided by the strategy developed in the problem definition phase and the success of the idea is also partly decided by whether the service firm identifies the right project problem, managers need to put much of their attention in the first new service development phase to ascertain the new service development process to proceed in the right direction.

Furthermore, our findings suggest that the innovativeness of the final service solution or service product is not only determined by the idea. It is a synergistic effect of strategy, idea, and production. This suggests that managers should realise the synergistic effect of them on the project solution and recognise the importance of developing the creativity of all these three departments' employee creativity. The creativity of the final solution is limited to the service idea, but the idea plays the most important role in determining the innovativeness and effectiveness of the final service solution. Also, this research points out the importance of the problem diagnosis stage in the service innovation process, which implies that advertising companies should pay more attention to it.

Additionally, the findings of co-creation provide a comprehensive picture of how to involve clients into the process. The intensity of co-creation varies across the innovation process. KIBS firms should educate their clients to make them understand when they should get involved in the process and what they should do. The timing of client involvement plays a crucial role in achieving service success. Moreover, the findings of

co-creation can help clients have a better understanding of their role and the timing of their involvement in the innovation process. This can help service suppliers and their clients collaborate more effectively.

Last, the findings provide some useful implications for managers in the advertising industry and other C-KIBS or P-KIBS in the aspect of how to design and manage the innovation process and co-create with clients under the contingencies of varying project innovativeness. Understanding how KIBS project innovativeness influences the co-creation between service providers and clients and how to manage the innovation process could aid service companies allocating their resources in a more efficient and effective way. Additionally, identifying where the innovativeness mainly derives from (the problem itself or solution) tends to help advertising firms design and manage the new service development process in a more efficient and effective way. In innovative projects, advertising companies should pay more attention to the problem definition phase to ascertain they understand the project well and get the deep customer insights. The KIBS project innovativeness influences significantly on how the company assigns people in different projects. Our results suggest that managers should attempt to assign the senior staff in projects with a high level of innovativeness. Furthermore, in innovative projects, decision makers should give more attention to the development process and the project members need to seek more interaction with various related departments on the client side. The findings also indicate that the effectiveness and the innovativeness of the final solution are heavily dependent on the project manager (account manager) and the director of each department. Therefore, to facilitate creativity development, the company should encourage communication among different project managers. Having a sharing culture is conducive to facilitating communication among employees. Managers in KIBS firms should use learning and sharing mechanisms to facilitate learning and sharing across the company. Facilitating such sharing can help companies mitigate the negative effects caused by employees leaving the company's management.

#### **10.4 Limitations and future research directions**

This thesis exemplifies all the advantages and disadvantages of single case study. It enables the case to be examined in great depth with primary research providing rich information. On the other hand, the range and diversity of creative industries mean one

has to be very careful when attempting to generalise conclusions. For our knowledge of innovation in services to progress, research must include both detailed case studies of individual fields, such as advertising, and also broad studies of the ‘services’ field. The main claim of this work as a contribution to progress is that it is original research that contributes to the understanding of this field. By taking the limitations of this research into consideration, the author points out some possible further research directions.

Firstly, the limit of our study, only interviewing the advertising managers rather than including both the managers from the client and the agency sides, is noted. Therefore, future research can investigate the perspectives of client marketing managers to see whether their views are the same or different from advertising managers. Additionally, future research can test the developed models in other industries, at least to other creative industries to further investigate the nature of service innovation, the co-creation between the service provider and their clients as well as the knowledge transfer between them.

Despite the large literature on innovation, this study of the advertising industry suggests that there remain many facets of innovation that require further study. Perhaps this is due to unusual features of the advertising industry – creative content and two-sided interface. But advertising is not unique in these features. There are other creative industries, such as design, and many other two-sided industries are emerging, such as social media. Also, there are some other industries involving two features (e.g. architecture). The rising importance of platforms and content in the economy suggests we need more explicated innovation studies and intriguing studies. These indicate that the 8-wheel dimensions developed in this thesis can also be used in other creative industries or other two-sided interface industries. Many of the points of the nature of service innovation may be generalizable, but it requires further research.

The findings of the nature of advertising innovation signifies the importance of technology driven innovation and data driven innovation. Therefore, the future research could explore the importance of data driven innovation and technology driven innovation in other types of KIBS. Although they are changing the advertising industry and becoming important sources of innovation. However, how they influence the other different types of KIBS remains under-researched.

The findings in Chapter 8 point out the importance of evaluation and learning phase in the advertising industry. Yet, whether the evaluation and learning phase is also important to other types of KIBS requires further research. More importantly, the availability of data plays a key role in the evaluation and learning phase. Therefore, one of the possible further research direction is about investigating the importance of data and how data enables firms to have systematic innovation management and evaluation methods. Apart from this research direction, another possible research direction about data is related to the data security. Data enables firms to share information more efficiently and effectively within firms and with their clients, yet it also brings many risks of how to use and how to store it. Therefore, one of the future research direction is to explore the data security issue in KIBS firms.

This study has emphasised the importance of breaking down the new service development process into more detailed stages and the importance of having an interactive process with clients. Whilst the innovation process developed specifically targeted advertising companies, it could be extended to accommodate other C-KIBS. Since the findings of co-creation and KIBS project innovativeness in this study were only based on interviews and the information from these advertising companies' sources, in order to generalise the findings, further research can use quantitative method to further investigate the related issues in other KIBS industries or creative industries.

Although this study argues that the employees in the advertising company are the main source of the creativity, the importance of external sources needs more systematic investigation and how the external sources influence the internal sources also needs to be discussed. Future researchers could examine the importance and effects of different idea sources on the service performance.

The intensity of co-creation across the innovation process follows a 'W-shaped' curve pattern in this study, yet whether this finding can be applied into other types of KIBS, such as software industry, requires further research.

The findings in Chapter 9 suggest that a new project (a high level of innovativeness involved in understanding the project) does not necessarily result in an innovative advertisement. Yet, in practice, we would expect that there is a relation between the innovativeness of the project itself and the novelty of the advertisements, but this

requires the study of individual projects and their outcomes. Although this study finds that KIBS project innovativeness is positively associated with the importance given to the problem definition phase, the number of development stages, the senior resource required, the involvement of decision maker, the co-creation with clients, and the collaboration with different departments in the client-side, these findings stay on a very rudimental stage. Further research is required to further demonstrate their relationship. Therefore, based on the fundamental findings in this study, we proposed six propositions:

**Table 10.1 The propositions of KIBS project innovativeness influences on managing new service development process**

Proposition 1	The KIBS project innovativeness will exhibit a positive association with the process flexibility.
Proposition 2	The KIBS project innovativeness will influence the importance of different development stages.
Proposition 3	The KIBS project innovativeness will exhibit a positive association with the level of competence that the project members have.
Proposition 4	The KIBS project innovativeness will exhibit a positive association with the decision maker's involvement in the process
Proposition 5	The KIBS project innovativeness will influence the interactivity of the interaction approaches used in the process.
Proposition 6	The KIBS project innovativeness will positively influence the co-creation intensity between service providers and clients.

Source: Author

When doing further research, survey is one of the approaches to demonstrating these propositions. In order to examine the generalisability of these findings, further research should be extended at least to other P-KIBS or C-KIBS industries, or other services and project-based firms, to further demonstrate the influences of project innovativeness.

Although this research explores how knowledge transferred between advertising agencies and their clients (in appendix 2), it does not show all the complexity related to knowledge transferring. Further research can use participant observation method to further explore the complexity of knowledge transferring.

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## **Appendices**

### **Appendix 1 Literature Review 4: Knowledge Transferring and Learning in the Innovation Process**

**OBJECTIVE:** Knowledge plays a key role in developing innovation in KIBS and a large part of the knowledge in KIBS derives from the innovation process, therefore the fourth objective of this thesis is to conceptualise the learning process in advertising agencies and to find out what they codify and how to manage the knowledge derived from the innovation process as well as how they share and transfer what they learn between different types of projects.

#### **Introduction**

The knowledge management process can be divided into a set of sub-stages containing organisational learning (capturing knowledge), knowledge production (codification), and knowledge transfer (Kakabadse et al., 2003; Werr, 2012). To date, most studies concerning knowledge management in KIBS firms have focused on management consulting firms. In terms of these studies, most of them have focused on four main themes: the nature of knowledge in management consulting, knowledge sharing and transfer, the effects of knowledge management, and the creation of new knowledge (Werr, 2012). However, studies exploring the same issues in the advertising industry are rather rare. Therefore, the following section discusses knowledge management strategy, knowledge bases, learning in projects and knowledge transferring in KIBS.

#### **Knowledge management strategy**

Effective knowledge management plays a critical role in facilitating knowledge communication and exchange which are the important activities in the innovation process and in a further step, has positive effects on innovation performance (Madhavan and Grover, 1998; Nonaka and Takeuchi, 1995). Faulconbridge (2006) argues that due to the intangible knowledge intensive nature of developing effective advertising, knowledge management plays a key and vital role in advertising professional service firms (PSFs). In addition, Chen and Huang (2009) argues that knowledge management capacity is critical in developing and fostering innovation. More specifically, they point out that the knowledge acquisition, knowledge sharing, and knowledge application all

have positive influences on innovation performance. However, how KIBS firms manage their knowledge is unclear and requires more academic research.

Knowledge management in companies is a complicated issue and needs to go beyond of assembling data and discrete facts which tend to be stored in databases or on intranets (Teece, 2015). Facts can be just information; they may not be knowledge (Teece, 2015). Teece (2015) claims that the approach that an organisation utilised to manage its knowledge implies its choices in the area of who it hires, how much it relies on information technology, and what to pay. In other words, the knowledge management approaches used implies a company's development strategy. In KIBS firms, knowledge is regarded as the core asset (Hansen et al., 1999). By means of the investigation of some consultancies, Hansen et al. (1999) find two different knowledge management strategies employed by consulting firms: codification strategy and personalisation strategy. In the former approach, knowledge needs to be codified and stored in databases, which enable everyone within the organisation to access it easily. Thus, the codification approach reflects the epistemological stance of "*knowledge as asset*" (Werr, 2012). However, in terms of the latter approach, it focuses on the transfer of tacit knowledge between employees and direct person-to-person contacts are the main way to transfer knowledge. When companies adopt personalisation strategy, the role of the computer is to communicate knowledge instead of storing knowledge. Therefore, the personalisation strategy emphasises the interactions between individuals, which reflects the epistemological view of "*knowledge as socially embedded*" (Werr, 2012). Hansen et al. (1999) note that all consulting firms use both the codification and the personalisation approaches and argue that in order to perform better, one strategy need to take the predominant role, the other is to support the first, which is consistent with the 80-20 split.

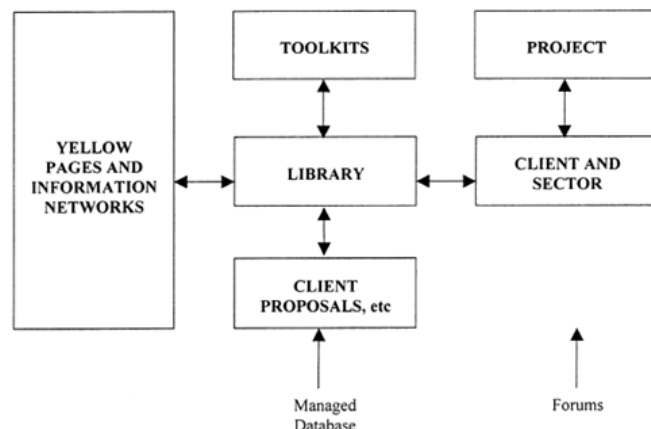
### **Knowledge codification antecedents and process**

In some consulting firms, for instance Andersen Consulting and Ernst & Young, which adopt a codification strategy, a "*people-to-document*" approach is used to codify knowledge (Hansen et al., 1999). Hansen et al. (1999) explain that in such an approach, knowledge is extracted from the specific project and the person developing it. The extracted knowledge is made independent of that person to achieve the purpose of being reused in a variety of projects. In the article, Hansen et al. (1999) quoted the words of

Ralph Poole, director of Ernst & Young's Centre for Business Knowledge, to demonstrate codification approach. He describes it like this: *"After removing client sensitive information, we develop 'knowledge objects' by pulling key pieces of knowledge such as interview guides, work Schedules, benchmark data, and market segmentation analyses out of documents and storing them in the electronic repository for people to use."* This approach enables everyone to have the chance to retrieve and reuse the codified knowledge without any contact with the person who developed it (Hansen et al., 1999).

Morris (2001) argues that in order to code expert knowledge effectively, professional firms need to tackle the central problem of codification: professionals need to give up their personal expertise which is related to their status and cooperate with each other. Building on a UK large consulting firm, Hay Management Consultants, Morris (2001) conceptualises the model that Hay used to codify knowledge, which is showed in the following figure:

**Figure-appendix 1 Model of knowledge codification**



Source: Morris (2001)

The model consists of three basic components: a ‘Yellow Pages’ type directory of consultants and their skills or experience, management database, and forums (Morris, 2001). In terms of the managed database, it contains three components. The first component is about a library which stores the best practice cases and other data on problems or issues drawn from outside, establishing standards to the client’s other projects. The second component concerns a toolkit of methods and ways of working



with different types of clients. The third component of the managed database is constituted by a database of client information which includes work and proposals. All these components are connected to an unmanaged database - 'forums', which is used to raise discussions about items of interest for consultants and to exchange information in an informal way. In terms of the best practice database, it is arranged on a case by case basis. These cases are rich in content with detailed description of what the problem and the outcome is and why they can be recognised as best practice, but with limited process codification. Here, the process codification means the description of the methods which are used to solve problems and the standard.

The way that KIBS firms used to utilise the accumulated and experience-based knowledge to produce new knowledge is de-contextualisation. De-contextualisation is defined as *"the deliberate process of extracting experience-based and procedural-based knowledge from its client and project-specific contexts, to combine and reconfigure it with the preexisting knowledge base in order to develop new knowledge products"*, and recontextualisation is defined as *"the process of direct contextualisation of individual or collective tacit knowledge without it being transformed through codification"* (Strambach, 2008). According to the definition of de-contextualisation, group-level learning in projects is the main channel of codifying accumulated procedural-based and experience-based knowledge (Strambach, 2008). Through such codification process (de-contextualisation), KIBS firms develop new knowledge products which help them capture new opportunities (Strambach, 2008) and create new markets (Strambach, 2001). The aim of knowledge codification is to convert knowledge into explicit knowledge to facilitate knowledge exchange (Strambach, 2008). However, knowledge codification is not a necessary process in transferring knowledge. Much knowledge can be transferred without going through the knowledge codification process (Strambach, 2008).

### **Knowledge personalisation**

The other knowledge management strategy, personalisation strategy, emphasises the dialogue and interaction between individuals instead of the knowledge in databases (Hansen et al., 1999). With reference to the knowledge that has not been codified, it is shared and transmitted in one-to-one conversations and brainstorming sessions (Hansen et al., 1999). In order to ensure that the personalisation strategy works well, the firms that Hansen et al. (1999) investigated invested a large amount of money in building

networks of people. In terms of the personalisation strategy, face-to-face is not the only way to share knowledge, telephone, e-mail, and video conferences are other potential alternatives (Hansen et al., 1999). Hansen et al. (1999) list four ways utilised by McKinsey to foster networks: transferring people between offices; fostering a culture in which returning phone calls promptly from consultants' colleagues is motivated; creating experts' directories; leveraging "*consulting director*" within the firm to help project teams.

In KIBS firms, their project-based service production is discontinuous and temporary (Strambach, 2008). Because of the high codification cost in project-based firms, it is difficult for them to explore systematic knowledge. In fact, since the nature of KIBS firms' service solutions are highly customised, tacit knowledge plays a significant role in their service solution development process (Strambach, 2008). According to the research of Leiponen (2004), advertising is constituted by both individual and collective tacit knowledge – the expert skills possessed by individuals and the knowledge residing in project teams in organisations.

Therefore, another objective of this study is to identify what type of knowledge strategy advertising companies uses to manage the knowledge during the innovation process and how the knowledge strategy helps them develop service innovation.

### **Knowledge bases**

In accordance with the perspective of Asheim et al. (2005), in a firm, its innovation process is strongly and largely shaped by its specific knowledge. In the study of Asheim et al. (2005), they classify knowledge into three different knowledge bases: 'analytical', 'synthetic' and 'symbolic'. They point out that in different knowledge bases, the mix of codified and tacit knowledge, codification limits and possibilities, skills and qualifications required by companies, the involved institutions, innovation pressures and challenges should all be different. They define synthetic knowledge as "*knowledge to design something that work as a solution to a practical problem*", analytical knowledge "*as knowledge to understand and explain features of the universe*", and symbolic knowledge as "*knowledge to create cultural meaning through transmission in an affecting sensuous medium*". Asheim et al. (2005) argue that the three types of knowledge bases refer to ideal-types. In practice, most industries compose of all three

types of knowledge development activities; what distinguish industries is the extent to which activity takes the dominant role (Asheim et al., 2005).

According to the view of Strambach et al. (2008), the knowledge bases of KIBS mainly contain synthetic and symbolic knowledge. Some industries may focus more on synthetic knowledge; some others are dependent more on symbolic knowledge. For example, according to the research of Asheim et al. (2005), creative industries are primarily based on the symbolic knowledge base.

Indeed, in terms of domain knowledge possessed by different KIBS, Miles (2012) conceptualises it as three different categories, including technology/technical knowledge, creativity/cultural knowledge, and professional/administrative knowledge. Essentially, the conceptualisation of domain knowledge of Miles (2012) is consistent with the knowledge bases proposed by Asheim et al. (2005), except that the focus of Miles (2012) is in KIBS, while the conceptualisation of Asheim et al. (2005) is based on all industries.

### **The knowledge base in the creative industries**

In terms of the industries which draw on a symbolic knowledge base, their innovation occurs mainly by applying existing knowledge or by making new combinations of knowledge (Hansen et al., 2005). In addition, very occasionally, their innovation may take place by setting aesthetical, technical or narrative standards. Hansen et al. (2005) argue that the innovations in the industries dominated by symbolic knowledge base are quite different from other industries due to the ephemeral nature of the products in such industries. Here, the ephemeral nature of innovation denotes that the products in these industries can only attract the attention of consumers for a limited time span although these products may exist in the physical form (Hansen et al., 2005). When comparing the industries relying mainly on analytical and synthetic knowledge bases, industries depending mainly on a symbolic knowledge base are likely to depend more on learning-by-doing in projects (Hansen et al., 2005). This also indicates the importance of exploring how advertising agencies learn from projects. In regard to the industries which mainly rely on a synthetic knowledge base, inter-firm localised learning is quite important (Asheim and Coenen, 2005).

In terms of the creative process in a commercial context, the people involved typically have different knowledge bases and need to integrate different types of knowledge (Nov and Jones, 2003). Creative processes in advertising agencies are not just dependent on few “creatives” (Nov and Jones, 2003), which are in line with the argument of Leonard and Sensiper (1998). According to the argument of Leonard and Sensiper (1998), interaction among individuals plays an essential role in the service or product innovation process. Leonard and Sensiper (1998) have highlighted and emphasised the essential role of social interaction in developing creative ideas or for teams of individuals who are responsible for delivering new services, products and organisational processes. In addition, Nov and Jones (2003) also emphasise that the creative processes in advertising agencies are constituted of group and cross-functional collaboration and highlight the importance of social relations to effective communication. The heart of the creative process is likely to be located in the cross-functional knowledge flows (Nov and Jones, 2003). Therefore, this study will explore how knowledge is transferred among different departments and how they work together to create new knowledge.

### **The importance of learning from projects**

As discussed in chapter 3, most of the innovation in KIBS can be regarded as *ad hoc* innovation although sometimes there are some ambiguities of assessing which innovation can be regarded as *ad hoc* innovation. *Ad hoc* innovation is developed specific to a particular situation and cannot be reproduced, yet the special and tacit techniques learnt, the knowledge acquired, and experiences accumulated from the innovation process can be reproduced in other projects (Gadrey and Gallouj, 1998). Consequently, how to learn from each project and apply the learning into other projects play a significant role in KIBS firms. To a certain extent, this supports that implementation and evaluation of the solution is not the final step of the innovation process. In KIBS firms, one of the sources of innovation is from the learning process and the form of innovation is project by project, thus, after the implementation and evaluation step, a learning step tends to be beneficial for KIBS providers to accumulate different types of knowledge. This is in line with the view of Miles et al. (1995). They claim that KIBS are featured by learning to learn and learning-by-networking. Another feature of KIBS businesses is that they cope with businesses in a range of industries, which implies that firms in these sectors have a wide spectrum of knowledge as they

accumulate knowledge from different industries. Consequently, how to learn from every project plays a critical role in KIBS firms' innovation processes and influences their innovation capability. Also, in a service economy, many scholars view managing knowledge and knowledge work as the fundamental and essential of innovation (Coombs, 2003; Miles, 2000; Newell et al., 2009). Additionally, Faulconbridge (2015) argues that before understanding professional service firms' form, management, market and the services produced them, we need to study and understand their knowledge and learning characteristics at first.

The importance of learning is also indicated by the dynamic service innovation capability proposed by den Hertog et al. (2010). Based on the resource-based view (RBV) and dynamic capabilities view (DCV), den Hertog et al. (2010) proposed the notion of dynamic service innovation capabilities and identified six capabilities. Dynamic service innovation capabilities are defined as "*specific capabilities, i.e. organisational competences, routines and processes organisations already have or newly develop to manage the process of service innovation*" (den Hertog et al., 2010, p. 498). These six dynamic capabilities are (1) signalling user needs and technological options; (2) conceptualising; (3) (un-)bundling capability; (4) co-producing and orchestrating; (5) scaling and stretching, (6) learning and adopting. Therefore, from these capabilities, we can find that how to learn from previous projects plays an important role in improving the dynamic service innovation capability. To some extent, learning represents changes as the more companies learn, the more opportunities for them to make changes. Also, learning from projects can help firms deal with the same challenges more efficiently as the solution for the challenge is ready (Tidd and Bessant, 2013). Although many people have realised the importance of learning, many organisations still lack the learning process and make the same mistakes in many times (Tidd and Bessant, 2013). Therefore, exploring how advertising agencies learn from projects will be helpful for both these firms and scholars to have a better understanding of their companies, which, in a further step, tends to contribute to helping advertising companies develop a better learning process.

As the innovation in KIBS is mainly about the recombination or development of existing knowledge, it is important for firms to know how to learn from their projects and how to obtain new knowledge from elsewhere. This is partly consistent with the

perspective of Gann and Salter (2000), who argue that in project based firms, integrating the experiences of projects into firms' business processes is the approach to ensuring the organisation coherence. Hobday (2000) also points out that the way that the project-based organisation uses to build its knowledge, capabilities and resources is through executing major projects. However, pure project-based organisations usually lack formal structures and mechanisms in cross-project learning (Ekstedt et al., 2003; Grabher, 2002). Although project-based organisations achieve good performance in individual project, the high pressured working environment makes their employees have little time and space in having systematic formal training and development (Grabher, 2002). Therefore, learning from projects is important for the development of project-based firms, yet, the issues of knowledge management and learning, especially the relationship between learning among individuals, project teams and that across firms, are still little understood (Gann and Salter, 2000). This is partly because of the independent nature of every project, meaning that the modes of production in project-based firms are discontinuous and temporary, which causes problems for them to assimilate new knowledge throughout the organisation (Gann and Salter, 2000). Therefore, how to systematically manage the process of learning and the knowledge obtained from the innovation process significantly influences the development of KIBS and their service innovation capability.

### **Organisation learning**

In terms of the organisational learning, Crossan et al. (1999) proposed a 4I organisational framework which is divided into four related sub-processes: intuiting, interpreting, integrating, and institutionalising. These sub-processes take place over three levels, which are individual, group, and organisation. In KIBS firms, their services are based on projects and they usually use the learning method of learning-by-doing. The former three stages all happen during the process of producing solutions, only the last process-institutionalising has a high opportunity of occurring after the production of solutions and in the evaluation and learning process. Because of the importance of learning-by-doing in KIBS, how organisations evaluate, learn and institutionalise the knowledge that they obtain during the innovation process affect the firm performance and innovation capability. Institutionalisation provides the preconditions for knowledge transfer among employees and different units. There are many researchers demonstrate

that the organisations which are capable of transferring knowledge effectively among different units are much more productive and tend to have more opportunities to survive in the competitive environment (Argote et al., 1990; Baum and Ingram, 1998). In KIBS firms, the knowledge management is concerned with the conversion of individuals' learning and skills into organisational collective resources (Leiponen, 2004). Therefore, how to learn from projects and how to institutionalise the knowledge gained from innovation process is associated with the innovation capability. Thus, one of the objectives of this study is to conceptualise how firms learn from every project.

### **Knowledge conversion processes**

By reviewing previous literature related to knowledge, Newell et al. (2009) have identified that there are three frameworks which can help us understand knowledge types, including the SECI model developed by Nonaka (1994), the framework developed by Spender (1996; 1998) and the model developed by Blackler (1995).

Nonaka's framework (1994) shows four distinct knowledge conversion processes:

- Socialisation, which refers to the transferring between tacit knowledge;
- Externalisation, which describes the transferring from tacit knowledge to explicit knowledge;
- Internalisation, which denotes the transferring from explicit knowledge to tacit knowledge;
- Combination, which represents the transferring between explicit knowledge;

According to the perspective of Nonaka, in creating new knowledge, one of the essential parts is individual cognition, and the creation of organisational knowledge derives from the individual (Newell et al., 2009). However, there are some criticisms of the SECI model (Newell et al., 2009). The first criticism is about what can be regarded as explicit knowledge. The second is that because in the SECI model, Nonaka does not take the difference of the places producing the knowledge into consideration, which means he separates knowledge from the generation context. However, if separating the knowledge from the generation context, it becomes information rather than knowledge. In addition, the SECI model underrates the influence of different interests, power and political dynamics during the knowledge creation processes in different organisation.

Then, based on Nonaka's SECI model, Spender (1996; 1998) developed another framework which takes both the types of knowledge and where the knowledge resides into account. In other words, in the knowledge framework proposed by Spender (1996), he recognises the difference of the knowledge possessed by individuals and organisations.

### **Knowledge transfer**

There are many different definitions of knowledge transfer. Some scholars considers that knowledge transfer equates to knowledge sharing (Huber, 1991), yet, more and more scholars have adopted the "*source and recipient*" model. For instance, in light of the project management and knowledge transfer literatures, Zhao et al. (2015) define cross-project knowledge transfer as "*the communication activities of knowledge from a source project to a recipient project so that the useful knowledge is absorbed and reused by the recipient project*" (p. 326). Moreover, Ko et al. (2005) define knowledge transfer as "*the communication of knowledge from a source so that it is learned and applied by a recipient*". Additionally, in accordance with the communication perspective and view, knowledge transfer is a process constituted by two sub-processes: knowledge sending and knowledge receiving, in which the source transfers the knowledge information to the recipient (Ko et al., 2005).

### ***Knowledge transfer between service companies and clients***

Initially, service companies primarily possesses professional knowledge or technical knowledge of providing service solutions, while the client mainly possesses business knowledge (Ko et al., 2005), which results in knowledge asymmetry between service companies and clients. Therefore, in a project, the knowledge transfer between service companies and clients is necessary. By collecting data from 96 ERP implementation projects, Ko et al. (2005) demonstrate that the knowledge transfer from consultants to clients is associated with motivational-related, communicational-related, and knowledge-related factors. Thus, how the service company and their client transfer knowledge in the service process relies on their motivation to transfer knowledge, how they interact and what types of knowledge they need to exchange.



### ***The types of knowledge transferred***

In the literature concerning knowledge, there are many dimensions of knowledge proposed. Løwendahl et al. (2001) think of knowledge as a broad term, including both explicit and tacit knowledge and both knowledge at the individual level and collective level. They model three types of knowledge at the individual level: experience-based, tacit knowledge (know-how), information-based and task related, objective knowledge (know-what), and talent, aptitudes, creativity, artistic abilities related, and intuition related personal knowledge. Regarding the last type of knowledge, it is related to the creative ability. With regard to the knowledge at the collective level, they think of it as *“the combination of skills, routines, norms and values developed and shared by at least two employees working together, each employee’s individual knowledge, and the information available to them”*. In addition, by investigating two global consulting organisations, Werr and Stjernberg (2003) proposed a model which conceptualised the knowledge in consulting firms into three different types of knowledge: common methodologies and tools, explicit and specific material concerning certain types of client cases, and consultants’ experiences. The first two types of knowledge represent explicit knowledge. The last one denotes the tacit knowledge.

In terms of the knowledge used and transferred in the process, Edvardsson et al. (2012) classify it into four different categories, including the knowledge concerning problems and difficulties, the knowledge concerning ideas and opportunities, the knowledge concerning behaviours and emotions which are significant or sought-after, and the knowledge concerning solutions or prototypes. These different categories’ knowledge is transferred among different departments. In projects, firms acquire new knowledge in the development process, and then add the new knowledge to their existed knowledge storage (Tidd and Bessant, 2013). Such knowledge can be technological knowledge, market knowledge, the knowledge of regulatory and competitive contexts, etc. (Tidd and Bessant, 2013). Through this approach, knowledge is successfully transferred and reused in a variety of projects.

### ***Knowledge transferring difficulties***

Although information sharing and cooperation between organisations bring many benefits for companies, they can also be problematic (Hillman et al., 2009). For

example, information exchange may give rise to knowledge spillover (Inkpen and Currall, 2004) and information asymmetry may give rise to power imbalance (Tsang, 1999). Because of the existence of knowledge spillover, knowledge exchange inter-firms confronts many obstacles. Having some regulations or rules in how to transfer and how to use the transferred knowledge is possible to facilitate knowledge exchange with other organisations.

Moreover, when the knowledge gap between the service supplier and the client is rather big, it may cause some problems in understanding and communicating with each other. This is in line with the argument of Yakhlef and Groupe (2007), the more distant between the knowledge transfer source and recipient unit is, the more difficulty will emerge in the transfer process. In addition, the types of knowledge also influence the transfer of knowledge. Some types of knowledge are easy to transfer, such as the codified knowledge, while some other knowledge may be difficult to transfer, such as the product or service secrets and knowledge which cannot be codified.

In terms of the difficulties of knowledge transfer within firms, on one hand, the source project team may have difficulty in documenting and storing what they learn in their knowledge repositories (Newell and Edelman, 2008); on the other hand, the source project team may feel that the knowledge in their repositories are outdated (Pemsel and Müller, 2012; Zhao et al., 2015) and fragmented (Pemsel and Wiewiora, 2013). Additionally, owing to the temporary nature of projects, transferring knowledge across projects is a challenging and complex issue (Rus and Lindvall, 2002; Zhao et al., 2015). In project-based firms, their modes of production are discontinuous and temporary, which causes problems for them to assimilate new knowledge throughout the organisation (Gann and Salter, 2000). To project teams, time pressure to complete their projects is one of the big reasons to limit their engagement in knowledge transfer activities (Zhao et al., 2015). Another issue is related to the nature of knowledge in KIBS firms, most of which is tacit knowledge (Rus and Lindvall, 2002).

Under the condition of these difficulties, the approach that the most PSFs use to develop their human capital is by the means of recruitment and learning and accumulating experience from the recursive practice of craft skills in different situations, particularly for the PSFs concentrating on creativity and innovation (Constant, 2000; Cook and

Brown, 1999; Salter and Tether, 2014). This signifies the importance of learning from different projects.

Therefore, exploring how advertising companies learn from different projects, what they learn, how they share such learning, and how they manage the knowledge shared will help scholars have a better understanding of these issues and be conducive to advertising agencies learning and sharing in a better way.

## **Conclusion**

This section has reviewed the literature about knowledge management, knowledge transferring and learning. The core role of KIBS is to create new knowledge, yet before creating knowledge, there is a great deal of knowledge transferred between KIBS firms and their clients. There are four distinct knowledge conversion processes involved in creating new knowledge: socialisation, externalisation, internalisation and combination. Additionally, the literature in this section highlights the importance of learning from projects in KIBS. Generally, there are four different processes involved in organisational learning: intuiting, interpreting, integrating and institutionalising. After the process of learning from projects, another important issue is concerned with how to manage the knowledge acquired from clients or from the new knowledge development process. From the prior literature, there are two knowledge management strategies mainly used by KIBS: codification and personalisation.

## **Appendix 2 Research Result 4: Knowledge Transferring and Learning in the Innovation Process**

### **Introduction**

In the innovation process of developing new advertising service, there are two different types of knowledge transferring intertwined with each other: the knowledge transferring between advertising agencies and clients and the knowledge transferring within the advertising agency. In a good relationship, the advertising agency and the client work as partners and collaborate closely with each other. There is much knowledge transferring between them to ensure the project work to go smoothly and effectively. Then, within the advertising agency, in terms of the knowledge the agency acquires from the client, the staff need to share it with the rest of the project members. The following section will illustrate how the knowledge is transferred from the client to the agency and how the knowledge is circulated around the agency.

### **Knowledge transferring between agencies and clients**

#### ***The problem definition phase***

In the preliminary phase, the information can come from different departments. It depends on the project problem and whether the agency has the access to communicate with other departments. If the advertising product is a new product involving new scientific knowledge, giving advertising agency the access to communicate with the technology development department or new product development department will help the involved project members have a better understanding of the project and the advertising product. Therefore, the knowledge required by the agency can from a variety of departments in the client side. The following is an example given by one of the interviewees:

*“Yeah...You might want to interrogate somebody. Because that’s a new product, there are some scientific things, so you need to speak to the scientific technology department to get a real insight of what makes it tick. Because planners will really interrogate the product massively, so they might get information from the client, they might get information from new product development department.....it varies really.” (C7, Executive Creative Director)*

Therefore, there are two types of knowledge transferred from their clients: codified knowledge which is stored in documents and tacit knowledge which is communicated in conversations. Transferring documented knowledge is an efficient way to make the agency have a general understanding of the advertising project, yet, it is insufficient for the agency to create an innovative solution for the client. Therefore, the agency and the client have to communicate with each other at the beginning of the process. As discussed in Chapter 8, the agency and the client have the most intense interaction in the problem definition phase. Communication is the way to understand what the client is thinking about in their minds. Sometimes, some knowledge or information is difficult to codify, the only way to access to it is by communication and discussion. Through the discussion between the agency and the client, tacit knowledge is able to be transferred between them. The following quotation shows the importance of communication:

*“A lot of the time it can just be documented and brief from the client. Sometimes you need to go talk to people. We used to work for [a company] and there was a lot of interviewing, a lot of speaking to fans.....” (C7, Executive Creative Director)*

Since in the stage of understanding client businesses, the aim is to collect information from clients and get the insights of their businesses, the participants act as the knowledge collector. In this stage, the knowledge mainly flows from the client to the agency. It is a primarily unidirectional knowledge transfer. Clients need to transfer what they know about their projects and businesses to their agencies. Yet, in the course of understanding the client businesses, the agency also needs to feedback what they know or understand about their client businesses to the client. It is not an entirely unidirectional knowledge transfer. Generally, there is more knowledge transferred from the client to the agency than the agency to the client. The following quotations state what is mainly transferred between the agency and the client in this phase:

*“In that instance, where the platform exists, it’s very much for us absorbing. So, there will be inductions with all the teams. As an account director, I would define the core team that would work with that client and that team of manager exists and perhaps keeps creatives, great creatives would be induced into the business ideally. So, the marketing directors will set up different meetings with different departments of the business. Or if it’s a manufacturing business, there might be factory talks, and also if there an existing business that has articulated that platform well, there would be a lot of documentation, there will be, you know, big brand’s documents of why the brand exists as ID does, how we articulate it, what it*

*stands for, and also the business documents. So, usually, the marketing director, and the finance director will talk this through how this is performing, and why the target exists as they do. The more we can understand at that initial phase, absolutely the better. So, we try push to absorb as much as possible in that instance.” (C3, Account Director)*

*“So, the most important thing that we need to get from the client is what’s the problem, what you are advertising, what’s the business need, so, the most important thing is the business context, so, have sales rapidly climbed, are we launching a new product, do we have a new competitor enter into the market, do we need to group.....do we need to increase frequency, that’s kind of the core cross of why are you briefing to us in the first place. Then, depends on the category, that’s then when much more detailed information about the brand, about the product comes in hand, so the brand has a point of view of the world that is surprising, is this is a product that meets the needs no other product does, or is it quite simply that we want more people to buy us more often. So, we need to find a way to create a frequency and penetration. Then, from a totally point of view, generally, we will establish the tune of voice with the client. So, we all matters as much as they do, likewise, when it comes to the audience, clients tend to have a more of data-driven view...and then, it all falls on the agency to turn what can be demographics and data into a culturally rich, resilient, interesting, portray of who this audience, and how we make connection with them in culture.” (C4, Strategy Director)*

In the problem diagnosis stage, advertising agencies and their clients need to co-diagnose the advertising problem, thus, in most times, it is a bidirectional knowledge transfer stage. The participants (account handlers, strategy planners, etc.) act as the knowledge assimilator. In some cases, clients are the expert of diagnosing their own problems and understanding their businesses well, advertising agency may do not need to spend much time in diagnosing the client problem and only need to receive the necessary information from their clients. Thus, in the circumstances, the knowledge transfer is more like a unidirectional process.

In the strategy planning stage, the aim is to develop a simple and creative strategy. The project participants in this stage need to integrate the information they receive internally and externally (from clients, research organisations, consumers, etc.) to identify the most useful information, and then construct a creative strategy based on the selected information. In this sense, they need to know how to select the most important, creative, interesting, and relevant information from thousands of pieces of information. Thus, the participants, who are mainly constituted by strategy planners, are the knowledge integrator in this stage. Therefore, the strategy planners mainly take the role of

knowledge integrator in a project. In the stage, the knowledge transfer between the agency and the client is limited to communication of possible strategies. The agency shows their proposals to their client and then, the client will give some feedback to some. Therefore, the knowledge transfer in this stage between the client and the agency is the combination of tacit and explicit knowledge.

In the creative briefing stage, there is rather limited knowledge transfer between the agency and the client. In most cases, it is an internal process.

### ***The creative phase***

In the idea generation, idea testing, and idea selection stages, the project participants (the creative teams) act as the knowledge creator. Their responsibility is to create a new and creative idea for the project. Thus, the knowledge transferred between the agency and the client at this stage is centered on the idea proposed by the creative teams. The knowledge flow is more from the agency to the client than from the client to the agency. The knowledge flows from the client to the agency is their feedback based on the ideas proposed by the agency. Therefore, in creating new knowledge, most responsibilities rely on the agency. The form of new knowledge created in this phase is the core idea co-selected by the agency and the client.

### ***The production phase***

In the production phase, at first, creative professionals have the responsibility to diffuse the idea generated in the creative phase to the teams work in the production phase, including the production company, the client, and some other external organisations. They need to articulate their idea to make each one involved in the phase fully understand the idea. Sometimes, it is the responsibility of account handlers to diffuse the new knowledge as they represent the voice of the client and are the representatives of the agency. Thus, sometimes, they may need to undertake the responsibility to diffuse the knowledge to other related parties involved in the production phase.

After all the participants involved in the production phase fully understand the idea, then, these participants need to amplify the idea. Therefore, in this stage, the involved participants act as the knowledge amplifier. After the idea is amplified, the agency, the

client, and the production company need to work together to bring the abstract knowledge to life.

The involvement of clients in this stage is centered on tracking the project progress and signing off some necessary documents. Therefore, in this phase, the knowledge transfer between the agency and the client is limited to some documents sign off. Then, it is about testing the final product and launching it, which can be regarded as the new knowledge commercialisation stage.

### ***The evaluation phase and learning phase***

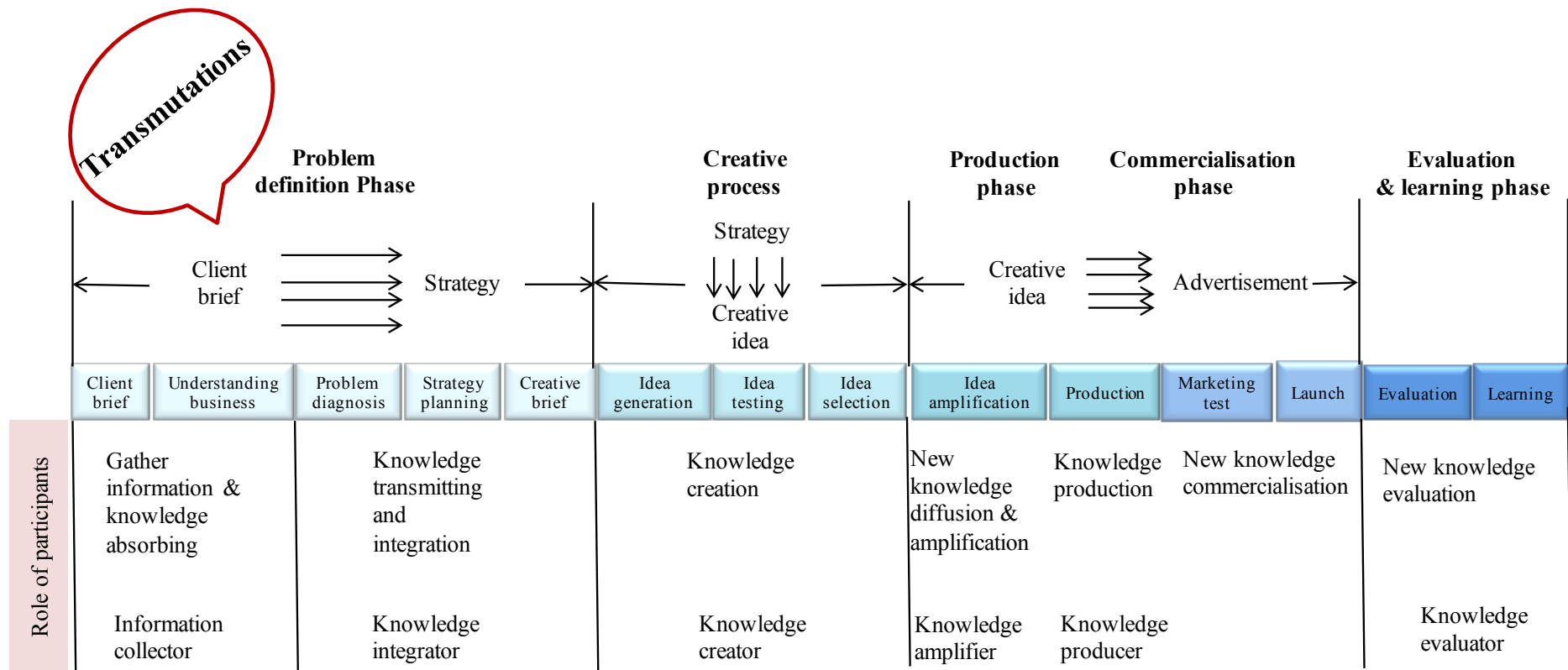
In the evaluation phase, the knowledge transferred between the agency and the client is their feedback towards the project performance, thus, both the participants from the client-side and the agency-side act as the knowledge evaluator.

### **The role of participants in knowledge transferring**

Therefore, the participants in different phases undertake different knowledge transferring roles. Generally, account handlers mainly act as the knowledge collector, strategists mainly take the role of knowledge integrator, and creative teams are the main new knowledge creator, new knowledge diffuser and new knowledge amplifier. Additionally, account handlers, strategists and production companies can also be knowledge amplifier. Additionally, production staff can be regarded as the knowledge producer. All the involved participants are the knowledge evaluator. However, the roles identified here are the main responsibilities of these participants. Since they are part of the project, they cannot avoid undertaking multiple roles in the innovation process.



Figure-appendix 2 The role of participants in knowledge transferring

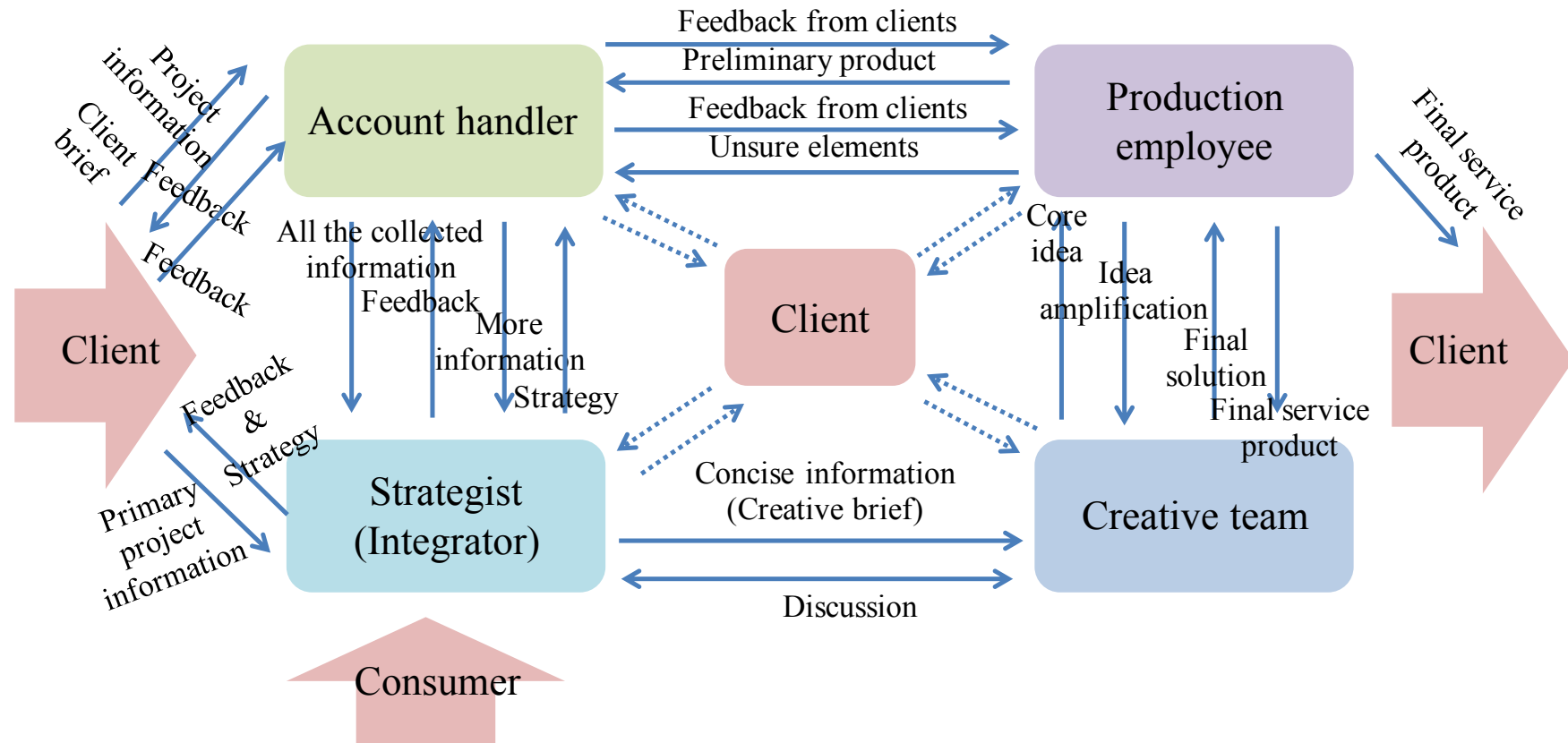


Source: Author

### **Knowledge flow in the innovation process**

Therefore, at the beginning of the process, in the stage of client brief and understanding client business, the information flow is mainly from the client to the agency. Then, in other stages, the information flow tends to be bidirectional, yet the flow from the agency to the client tends to take the core role. The knowledge flow in the innovation process within the agency is as follows. It is mainly the transfer among four types of project members – account handlers, strategists, creative teams, and production employees and with clients. The following figure shows how the knowledge circulates between the client and the agency and within the agency.

**Figure-appendix 3 Knowledge flows in the innovation process**



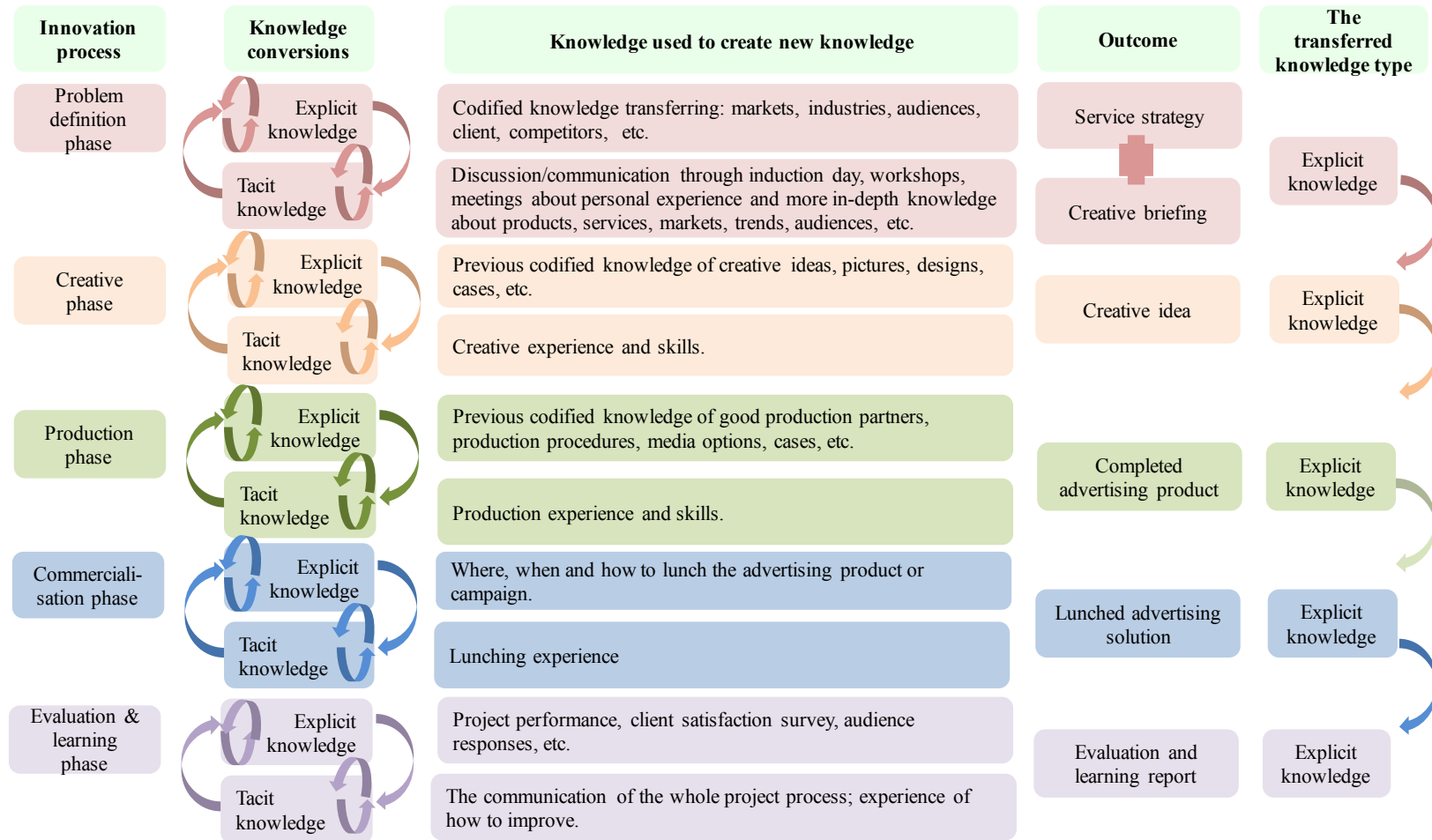
Source: Author

### **The types of knowledge used and created in the innovation process**

Although Nonaka (1994) proposed four types of knowledge conversion processes and through which the creation of knowledge could happen, indeed, it is not as simple as what Nonaka described. The creation of knowledge is usually the combination of both tacit and explicit knowledge. It often involves more than one conversion process. Because throughout the process, in different stages, it needs the collaboration between different departments/roles of people, the knowledge is usually transferred with documents, which indicates the necessity of explicit knowledge transferring. As the knowledge created is professional knowledge, such explicit knowledge is usually combined with the tacit knowledge (experience of involved participants).

Therefore, by combined with the discussion above about the knowledge transfer between the agency and the client, the following figure illustrates how new knowledge is created by the combination of explicit and tacit knowledge step by step and what is transferred in each innovation phase.

**Figure-appendix 4 How knowledge is used and transferred in the innovation process**



Source: Author

From the above figure, we can see that the knowledge outcome from each innovation phase derives from the use of both explicit and tacit knowledge. As proposed by Nonaka, there are four types of knowledge conversion processes to create new knowledge, including socialisation, internalisation, combination, and externalisation. Therefore, in each phase, all these four knowledge conversion processes could happen. It depends on the real problem. The knowledge transferred after each innovation phase is in the form of explicit knowledge, respectively advertising strategy and creative briefing, creative idea, completed advertising product, launched advertising solution, and evaluation and learning report. Therefore, the outcome of each innovation phase is mainly transferred in the form of explicit knowledge between the service provider and the client.

## **Learning from projects**

### ***The importance of learning***

Advertising services are KIBS. Professional knowledge is the core of advertising companies. In KIBS firms, they accumulate their knowledge by engaging in different projects and then learning from these projects. Hence, learning is an important issue in KIBS. Learning can not only help companies cope with project problems more efficiently and effectively, but also help them avoid making the same mistakes again. Because every project is different from others in some areas, employees need to know how to apply what they learn from other projects into a different situation. However, because KIBS firms are filled with tacit knowledge which is hard to store, some interviewees argued that the importance of learning is to help the company know who they can bring into the project and where they can find the relevant expertise. This indicates that the first step of learning of tacit knowledge is to know who possesses such tacit knowledge, and then through communicating with the person to achieve the aim of tacit knowledge learning and transferring. Therefore, in order to facilitate the transferring of tacit knowledge among employees, companies can codify the general information of each project at first, such as the good and bad aspects of each project, the mistakes made in the process, and the responsibility of each project member. This can be classified as one type of knowledge codification. Such type of knowledge codification is to assist the learning and transferring of tacit knowledge. Therefore,

verbal communication is the necessary step of transferring tacit knowledge. The following quotations show the importance of learning:

*“Yeah! That’s important to do because we don’t want to make mistakes for one project without learning from it. You know, you make mistakes, then we have to learn, we have to carry on learning.” (C4, Creative Partner)*

*“.....what we are very good at doing is knowing who to go to, should that question come up. What [another advertising company] do very well, what we do very well is we don’t preface to know the answer of everything, but we know where to go to get that expertise. So, especially with more innovative projects, rather than trying to constantly stay up to date on everything about theatre production or Hollywood, we keep a very good community of expertise partners, and we just speak to them when we need to better understand what we might do. And we bring those people in we ring, I said, Twitter tomorrow, speak Facebook regularly, and we almost ask them to help us.” (C22, Managing Director)*

In terms of how to learn from projects, there are two different processes: one is in the course of the project, the other is after the project. The former is an automatic and individual process, while the latter is a more formal and company level learning process.

### **How to learn from projects**

#### ***After the project - Formal review sessions***

As discussed in Chapter 8, the last phase of the innovation process is the evaluation and learning phase, agencies and clients evaluate the project together, and in the meanwhile, they learn from the project. Clients will check whether the service solution performance meets their expectation and whether they feel satisfied with how the work is done. Also, the agency will learn how they improve the way that they use to operate the project and the approach they use to interact with clients, how they develop better and more innovative ideas in the future, how they work with their clients, how they manage their employees, etc.

Therefore, usually, before the company evaluates the project with the client or after the evaluation, the company will have an internal formal review session for the involved projects members to learn from the project. Some companies call it as the post campaign analysis. In these internal sessions, the company will check what they did well and did not well in the process, how they can improve it, what they can learn, etc. In order to develop a successful service solution, it requires a wide range of efforts from

different parties, such as the agency, the client, the external collaborators, audiences, etc. Thus, what the company can learn is not limited to the work of the project, but also includes how they interact with these different parties. Based upon the empirical data, we find that the learning after each project can be divided into four categories: about the innovation process, about the client, about partners, and about audiences or culture. The following are some interviewees' perspectives of having formal review session after the project:

*"So, often there, most of the accounts would have, at the end of any project, will do a post campaign analysis (PCA), which you will look at what we worked well, what we didn't work well, what we would have done differently if you go back, what did we do work, how did it work, what were the business results from the heart measures, but also software, how did it make people feel about the brand. And then it's taken forward to, OK, learning for the next time, that's with anyone in the account in the course of that. Beyond that, we have a culture very much of sharing and talking about things." (C4, Strategy Director)*

*"We have different ones with different clients. We have, for instance, all of the [Brand name] brands have a formal review session.....I think now more and more what we are trying to do is putting formal campaign reviews after the campaign runs. The first thing is to set very clear targets and KPIs for campaigns. And then, afterwards to sit down together as a team with the client, we said we want to achieve this target audience, how we done.....there are lot of, I think technologies can help us, we have a property which we call signal, which is a dashboard of metrics which we can customise for different clients." (C17, Creative Director)*

The above quotations also indicate that having such formal review session is beneficial for firms to foster learning and sharing culture, which is important for KIBS firms. In addition, the above quotation also mentions the importance of KPIs in evaluating the project performance. However, some other interviewees argued that relying too much on KPIs to evaluate project performance will limit their creativity and lead to a boring and uncreative solution developed. Therefore, on one hand, setting up KPIs at the beginning of the process is an advisable approach to guiding the solution development; on the other hand, putting too much importance to insist on the KPIs is inclined to stifle the creativity development. The better way to use KPIs is by having a general agreement on some KPIs at the outset, but in the meanwhile, giving project members a certain degree of flexibility of how to use these KPIs.



### ***In the course of the project - Learning automatically***

Some interviewees expressed that formal review sessions are unnecessary as people can learn automatically from projects. In the course of the project, project members learn automatically by observing the things happened in the process, talking to other people and doing their work. In fact, this is in line with the nature of human being – learning from practices and learning from mistakes. Particularly in such a competitive business environment, everyone needs to educate themselves about the new things happening every day and learning from it. Therefore, when people are doing their work, learning from what they are doing is their nature and should conduct automatically. The differences among people are how much they learn and what they learn. Since, in the course of a project, employees are involved in the work, they are in the process of solving the project problem and interacting with people, all the information they receive is reflected in their minds and makes them think and learn. Given differences of personality, learning style and thinking style among individuals, such learning process is hard to conceptualise. This indicates that in a project, learning is throughout the process rather than after the project. Yet, the learning occurring in the course of the project focuses more on the individual level, while the learning occurring at the end of the project is more on the company level. Thus, what individuals learn in the process and what they learn at the end of the project with their colleagues tend to be different. The following quotations show the importance of automatic learning in the process:

*“You just do stuff and learn, you talk, you observe, you share and you apply that learning in the next time. You learn from mistakes...but we don't organise things in a structured way and have tests and reviews and measurements.....nothing is ever as you planned, nothing is ever the same, nothing is ever predictable, nothing you learn hear can be directly apply to that. In general, you just go for with a larger plan and creating an original brand expression whatever sort of platform they require to best be expressed. You do that with all of success or failure as a team. And collectively and individually, you observe, you learn, you take that experience sort of forward. Lots of has to do is personal interaction between people, whether we like each other and get along. Lots of has to do with connectivity with client, their degree of bravery. All these things, it's always different every time.” (C18, Creative Director)*

*“I think everyone works in advertising these days has kind of duty to know what's possible, which has to happen outside of the process, whether you are a planner, a creative, or a client, whatever it might be, you need to educate yourself because there are things that will possible today and*

*won't possible yesterday and that's the way we limit it now, right? And it's happening so much faster, so, the sort of thing we do a lot of is just to make sure you are meeting people.” (C25, Planning Director)*

*“I think one of the biggest advantages here is we don't have the structured training programme, everybody has the access to IPA courses. But one of the beauties of the way we work is that we have the direct working.....everybody is being client-facing. It's that you can learn so much just by listening. So, I found, I would say, I learn so much since being just from being in a meeting with my colleagues, and you know, strategically, listening to how our strategist pick for argument.....creatively understanding you know the impact of art direction, toner and voice like that. I think the fact we work so closely together and we talk a lot, we spend time to get the work out of the problem together is the best way of sharing information and helping people learn and grow.” (C4, Managing Director)*

Therefore, formal review sessions provide a chance for everyone in the project share with each other and motivate project members to think about what they can learn and how to share, which means these sessions create a learning atmosphere and facilitate the knowledge sharing and knowledge codification in the company. It is not necessary to have a review session or learning session after projects, but having the session is beneficiary for the company to create learning and sharing culture and facilitates knowledge sharing in the company.

### **What to learn from projects**

Since there are two different ways of learning: automatically learning in the course of the project and learning in the formal review session, what the employees learn from them tends to be different. The learning from the formal review session tends to focus on the company level, while the learning that individuals learn from the process tends to focus on the personal level.

#### ***Learning focusing on company level***

#### **Learning about how to optimise the innovation process**

At first, although the main stages involved in the innovation process can be applied into different projects, the detail of the process tends to be different in different projects. In the process, the detail may involve how they work with their clients, how they interact with clients in each stage, how they communicate, where the creative teams begin to be

involved in the process, how the creative team generate the creative ideas (is there any new approaches are used?), whether they should do some tests before launching, etc. If in the current project, the process works well and the creative team develop innovative ideas more efficiently and effectively as well as the idea produces significant effects on the market, the agency is inclined to apply the detail or running the process in that project in other relevant or similar projects. For example, one of the interviewees illustrated how they learn from the process:

*“I think mainly in terms of the process, you learn from... generally, you find the process works, and if it works in one project, you apply it to everything, whether it's the process working within creative teams or with the client. So, maybe you might approach creative differently. So, you might for example think, you might do a project where you collaborate with the client, have a workshop on what's the strategy, then, you get to a platform, then you have the creatives involved, then the creatives move into creative development. You might think that works really well for that project, I would do it again next time, then you will try it again.” (C10, Chief Creative Officer)*

Therefore, the agency can learn the process knowledge from the process.

### **Learning about how to solve problems**

Projects have both differences and similarities. Based on project problem properties, projects can be classified into different categories. Therefore, companies can apply what they learn from dealing with specific project problems to other projects having similar problems. It can be the thinking logic, the media combination, the ways to approach audiences, the advertising design, etc. After completing the project work, the directors may gather together to discuss what they can learn from projects, what they can extract and apply into other projects, whether they have parallel sectors in the company, etc. Here, it also indicates that the knowledge transfer between projects relies on directors. Therefore, the company should encourage the discussion among directors and create opportunities for them to share and learn from each other. However, this also creates another problem to the company. If all the knowledge sharing responsibility relies on the directors in the company, it makes the company competitive advantage in risk. Once these directors leave the company, it will be a big loss to the company. Hence, companies have to build a sharing corporation culture and create some regular sessions to make directors share what they understand about their businesses, what they learn,

and their perspectives of how to apply the learning with the rest of the company. By this way, the company reduces the chance of losing their competitive advantage when their directors leave the company. The following is an example from an interviewee about how they apply the learning about helping clients building their brand reputation to other projects.

*“Learning are all different. You do get size to specialise, actually, over similar. Most of our projects aren’t similar. But you do need to learn from each project. Projects tend to have start and finish lines, after they have results. We tend to keep quite close to what happened because what we did. The reason behind that is how we generate your business. We actually have to learn and distribute that learning to our senior employees. So, we have new business department, they tend to put pressure on each team. So, you work on [A project], the business director runs a relationship, it would be the creative director works with that person and strategist as well. So, in terms of senior people, or any big account, our new business department will put pressure on that service, to distribute a campaign for run a [session]. They wanna know how it was made, what we did, what was strategic thinking, what the consumer insights were. And marketers even want to know what happened, how many cars we sold, what was the environmental impact, so you size it, dyes it, measure it, and describe it, very often we create a piece of video case.....so, we create a film that expensive, if you were a new client or potential client, we could play you a little two minutes film goes. It's the way we do run for [a session name]. This is the things we might do.....so, you got these little packs of information relate to particular project. Then, myself, and new business structure, my boss...will regular analyse those things. You try to work out where you can find out parallels in other sectors.....how to massively environmentally impact, what other companies are out there who need either a piece of reputation build in that space...so, you try to apply across sector.....So, can we apply that to other sectors in terms of reputation or repair, you know, what other sectors or other organisations have got huge reputation or problem, because we can demonstrate we got know how turn those things around. So, you make...and try to make connections that one.”*  
(C15, Managing Director)

### **Learning about the client**

In the innovation process, the client is one of the most important participants and is the one who has the closest interaction with the agency. Therefore, in a project, the agency could learn a lot from their clients. The learning can be about the industry knowledge, market knowledge, the client preference, the client working mode, the client creativity boundary, etc. There are a variety of things can be learnt from the client. Since all such learning is about the client, the agency can apply it in other projects coming from the

same client. Through such learning, the agency will have a better understanding of the client, which is beneficiary to the agency to build a better relationship with the client and develop better and more innovative service solutions for the client.

### **Learning about working partners**

Apart from the knowledge related to how to operate the process and to the client, the agency can also learn the way that they use to collaborate with external organisations. In the process of developing the new service solution, the agency cannot only rely on their effort; they have to collaborate with external agencies to co-produce the innovative service solution. Thus, how they collaborate with other organisations is one of the important elements influencing the final service performance. As illustrated by one of the interviewees:

*“The other thing that sometimes works well, if you collaborate with different agencies.... For us, for example, with the media agencies, a big part of what we do depends on media, and how consumers gonna...how our messages, how our ideas gonna reach consumers. Media is the gate way that we always have to go through no matter what we do. In digital, if it's TV broadcast, if its activation, media is always involved somewhere. So, we might again come up with a different process working with media. Maybe we involve media very early in the process rather than approaching them at the end of the process. And you might think, again, if the media owner comes, involves earlier, and they say, before we get through the idea, we could do a fantastic media partnership with the Times newspaper, that could impact the idea itself. That might mean we tailor the idea to the media partnership which we wouldn't ever to do if we (postpone) the process and consult them at the end. If that works well, again, you might apply it next time. You might think right, we would consult the media earlier, again.” (C10, Account Director)*

Apart from the learning about how to collaborate with external agencies, another thing that the agency can learn in the process is the relationship with other collaborative organisations, such as the digital agency, the production company. The relationship between the agency and other external organisations is also crucial in developing an innovation service solution. Sometimes, if the agency has a bad relationship with these external organisations, an innovative and new idea will be ended up with a boring service solution. In the new service development process, there are two important components: the generation of the creative idea and the production of the creative idea. Agencies may be able to develop the creative ideas by their creative teams, but, to

produce the idea they need to collaborate with other organisations. Therefore, the relationship with other organisations, the work quality of these external organisations, the way that they work and their work efficiency all influence the performance of the final service product. Once agencies find some external organisations can work collaboratively and effectively with their agencies, it is highly possible that they will keep using these external organisations in future projects and keep a good relationship with them. For example, the following quotation illustrates the learning of the relationship with collaborators:

*“The other thing I would say if you work with the partner really good, for example, you might work with the great production company, you might think that production company is brilliant, let’s work with them again in the future. You build relationship with other suppliers.” (C10, Account Director)*

### **Learning about consumers**

The purpose of advertising is to deliver the client message to the targeted audiences and influence these audiences, thus, advertising agencies have to understand consumers well. In running varied projects, agencies get the chance to understand different types of audiences and different trends. The knowledge that they gain from these audiences can also be used in other projects having the same range of targeted audiences. For example, in one project, the agency identified a new trend of one type of audiences (like the young people from 20-30 years old), and in another project, the client has the same type of audiences, in such cases, the agency can apply what they learn about that type of audiences in their previous project into their current project. Therefore, in the circumstances, they manage to transfer knowledge between projects. Such learning can be a new trend about one type of consumers or the understanding of the preference about them. Therefore, advertising agencies can keep the insights of audiences and culture and apply them in a different way in other projects. The following are two illustrations from interviewees about applying the learning of audiences into other projects:

*“I think a lot of the learnings come from the...culture trends. Say you are working on a project for [Client Company]. You notice that people are spending a lot of more time at home since the recession and there is a lot of more cookers on entertainment at home, the rise of ...and increasing sales of premier delivery services...you see that trend that makes you think*

*great. That means one thing to [Client Company]. You might move to a lifestyle brand, say a alcohol brand, and remember there is a trend for people staying at home, and then, makes you think, OK, let's maybe not focus on going out to bars, let's focus on staying in home. And you take the same culture trend, but it means very different thing to a different brand. So, one thing you would, and that's something we share within the department, so people would be like, here is a really interesting part of view I've just written on staying in as you are going out, so, then share to everybody in the department as they got any case that's relevant to my client.....Other things become transferable would be insights of particular audiences. So, you might do some work into new grow-ups. So, how younger people want to be grow up earlier but being a grow up is not something to be sad about, like 50, 60, 70 years behave like 20 years old. So, nobody really old anymore. So, that can be something that you look after for the launch of a new car, but is it clear relevant to the launch of a new beer? Or as relevant to a healthcare promotion for boots? So, you will keep audience and culture insight, and then, you can reflect that in different ways. But generally, the specifies around the brand and the product, they are quite distinct because they are, like unique to the brand.” (C4, Strategy Director)*

*“The learnings are, I guess the easiest one to explain is that your targeting audiences are 25 years old female, education, living in London.....you know something about them, if another client come and say, we want to target 25 years old female living in London, you have got some knowledge about them.” (C13, Creative Director)*

### ***Learning focusing on the individual level***

#### **Learning about communication skills---More personal learning**

All the above learning locates at the company level, but in fact, there is much learning in individual level. In the course of projects, employees learn automatically in a variety of aspects, such as the communication skills, creative thinking style, presentation skills, the new animation style, etc. All such learning is more related to individuals rather than the company, thus employees accumulate such tacit knowledge during the project and apply what they learn automatically in the future projects. In such cases, no learning or sharing mechanisms are required, all the learning is related to the personal motivation to educate themselves and to improve their advertising and communication skills. Since such learning is more on the personal level, it is more difficult to transfer than the company level learning. Generally, such learning can be transferred through the conversation with their colleagues. The following is one of the illustrations of learning locating at the individual level:

*“I still learn from every project. You learn everything. Because every client is different, you learn communication skills from working with different people, you learn all the bits of production, so everything that you create is different, so, you learn maybe a new animation style, it’s a constantly, because we are doing so many different things always. We are constantly learning new things. There are new media we learn about as we go.” (C4, Creative Officer)*

Therefore, there are two types of learning: one is on the individual level; the other is on the company level. In terms of what project members learn, it can be mainly divided into five categories: about the process, about the client, about the partners, about audiences/trends, and about communication skills.

## **Knowledge Sharing**

### ***Knowledge sharing importance***

Learning is to accumulate knowledge and to improve employees’ skills. In order to maximise the effects of learning, the next important activity following learning is knowledge sharing. How to share what the individual learns from project is closely associated with the company development, particularly in KIBS firms. The competitive advantage of KIBS firms is related to their professional knowledge and their employees. Usually, the leaving of any employee signifies a part of knowledge loss of the company. Therefore, creating a sharing culture will assist companies in managing their professional knowledge and reducing the knowledge loss with employee leaving.

The importance of knowledge sharing has been acknowledged by advertising agencies. Many companies push their companies to share and articulate their experience with their colleagues or codify what they learn from projects in the internal knowledge database. The following is an interviewee’s perspective of sharing knowledge:

*“I think the good news is that we do lots of things for our clients. We will make sure we share those learnings. Again, it’s through ...understanding of the team, their experiences, they can look at the data, they can understand what we done. We try to let the team articulate. And that’s through presenting to the client, kind of review of the data, and understanding what those things are, and try to document in a way which is easy to reference. But the collection of the publication of this knowledge is a problem. Most businesses will tell you that in honest, they struggle to do this as well. Not everyone shares everything, but knowledge is power.” (C16, Creative Director)*



From the above illustration, we can also find that advertising companies find it is difficult to share knowledge. For the sake of sharing knowledge, companies need to have specific mechanisms and create a sharing culture to motivate everyone in the company to share automatically.

## **How to share**

### ***Informal verbal communication***

In terms of how to share knowledge, perspectives vary. Some interviewees insist that sharing is rather informal in advertising companies and there is no specific mechanism to regulate how to share and what to share. Most times, sharing happens in conversations rather than in documents. The process for sharing knowledge is rather flexible. It could happen anywhere in the company and in any form. The important thing is that the company should create a sharing culture for its employees. In fact, this is reasonable in the advertising industry as most of their knowledge is tacit knowledge which is hard to be transferred in documents. Communication is necessary for the transferring of such knowledge. The following are two illustrations from interviewees about the importance of verbal communication in sharing.

*“Probably no, nothing regular. The only thing is shared on team is just try this, I’ve seen this, this is great, send me in the social media, really. We share it internally by email, that kind of thing, or even just talking, which is more efficient.” (5, TBWA\Manchester, Gary)*

*“People use base camp. Base camp is a communication tool for sharing information. But most of the information is shared verbally. If someone says tell me more about this target audience, you just go to talk to them, you don’t write in things. The evidence of research, of course, that would be supplied by email, but people want to talk, want to discuss, what is the target audience, what is the message.” (C7, Executive Creative Director)*

However, a flexible sharing process does not mean that advertising companies do not have any schemes to facilitate the sharing among different project teams and employees. Relying only on informal verbal communication is obviously insufficient for advertising companies to share what they learn. Having some formal knowledge transferring schemes will be conducive to the knowledge sharing across the company and the company development.

### ***Formal mechanisms of knowledge transferring***

In the creative industries, knowledge is embodied in individuals. Transferring such knowledge between projects is not an easy job. Therefore, in order to facilitate the learning from projects to be shared among the agency and facilitate the knowledge transferring among projects, some advertising companies have some knowledge transferring and sharing mechanisms or schemes. The first common way is to have some sharing sessions to share what the department or the whole company learns in the past week(s). Such sharing sessions can occur in every morning, every week, every two weeks, or every month. Through the sharing sessions, the whole company or at least the certain department stays abreast of the learning happening in important projects, which tends to increase the chances of reusing the knowledge acquired in different projects. However, such mechanism can only transfer a small part of the knowledge, experience or skills that the project members gained in the process. Most knowledge is tacit knowledge and is hard to be transferred. Especially, the experience is difficult to transfer. Yet, having such session enables the other staff in the company to know who they can consult when they meet the same problems or work in the similar projects. Then, through communication for certain problems or knowledge, tacit knowledge finds the way to be transferred between projects. Also, such mechanism tends to help the company reduce the chance of making the same mistakes again.

The following quotation is an example that the agency has the morning sharing session which every employee will show up in their dining hall. In the morning sharing session, the management team of the company or the project members will share some best examples or what the company learnt from recent projects. Through the session, everybody in the company understands what is going on and what they can learn from their colleagues. In fact, morning session is the best way to keep individuals staying abreast of all the important things happening in the company. Yet, not every company has the condition to implement it. In a sense, having morning sharing session shows that the agency has an open, collaboration and sharing culture. That is the agency's identity.

*So, if something is done brilliantly, and we've done a fantastic virtual reality project, we will share with everybody internally. So, we have a meeting called morning Mass, where everybody comes together on these stairs, and we share all of our work and we talk about the news and we welcome new people who join the agency. And that's where then learnings,*

*whether they are good or bad, we often share with the whole agency. So, that everybody can learn from each other rather than just say, we have done a fantastic project with virtual reality, but no one else in the agency sees it, so no one else does it. So, that's the way of, again to conversation, sharing everything with each other..... But the morning Mass is a big, so the management team will stand up and will share the best thing that we've done. So, then that's kind of a big, like presentation of the best, but it's also done by...we have lunch together on those red benches downstairs. Every day, we will sit together for lunch. And often, that's why here about the best staff. That's where people talk.” (C4, Strategy Director)*

The following is an example of having weekly session. In such sessions, the agency tends to share the important things and important learning happening in the company recently, not all new things. It should be the learning that worth noting. Hence, some people or some departments need to undertake the responsibility to conclude what they learn in the last week and share. In terms of the above morning session, it can be very flexible and everyone can share. Yet, regarding weekly session, it tends to be more formal than the morning sharing session. In addition, in weekly session, some staff may need to take the responsibility to note the important learning occurring in the agency.

*“And this is a big challenge with the creative industry, because knowledge lives with individuals, and the experiences and clients live with individuals, and transferring that knowledge, that information is very difficult. So, agencies have to operate like family units in a lot of ways. So, here, we have something called strategy biscuits, which is a weekly session where the whole agency sits in the main board room and we have a topic, the planning department presents to us on, presents the agency's learning on it. So, the topic might be a recent client campaign we've done, or it might be the campaign someone else done that is worth noting, or the topic might be the consumer trend, all sorts of thing that we can go through. And the plan department chooses these topics each week, and that transfer of knowledge happens in those sessions, but also, it's almost a little bit stimulus, so, other people when to ask questions and who to ask questions of.” (C3, Account Director)*

*“We have forms and meetings; every month discuss strategy to show and tell our best stories. So, we do share experience.....we do have formal monthly meetings, show and tell, talk about the process, show what work, and if win a pitch, when we do something significant, that whole pitch might present to everybody. So, they can learn how things work.” (C3, Creative Director)*

Except weekly sharing session, some agencies have the bi-weekly meetings and case study databases. The following is an example that a company have bi-weekly meetings to share knowledge.

*“We try to share with other teams. So, one of the things we are doing is that we have bi-weekly meetings. So, we talk through projects, we will show what the project was in terms of in progress.....We have case study database, just got thousands of case studies in there. There is quite a lot of meta-data around those case studies to help people win the searching floor. Dominantly new businesses when they are looking things. We have meetings and regular presentations, then to make sure that we talk about our work and how it's going. You still rely a lot on people remembering things.....So, you want to make sure you sign post and again use internal blogs, search engines...to try to make it easier to find that information or knowledge.” (C16, Creative Director)*

Some other agencies may do not have formal sharing sessions very often. They may choose to have monthly meeting. This is partly because of the time pressure in the advertising industry. Everyone is busy with their daily work and sometimes, it is quite difficult to gather everyone together.

*“So, we share lots of stuff internally as well. We have on monthly based we will be talking about the work we are doing, so we try to get agencies together, someone from it, you have done something interesting, just be made someone stands up play this work, shows this work, and talks through them, and strategy the reason behind it. Everyone is very busy doing their own bit, but it's the beauty to get the breadth of knowledge, so, you talk about the knowledge.” (C15, Managing Director)*

Some international agencies have the appeal to grasp the knowledge happening around the world. They set up a special department or special team to undertake the responsibility of searching knowledge in their different international subsidiaries and codify the important learning occurring in different places. Through such plan, the company keeps producing stimulating knowledge and enables all the staff to have the opportunity to educate themselves. Additionally, such scheme manages to facilitate the communication among subsidiaries around the world. Under the trend of globalisation, understanding the trends, audiences and technologies in different markets is becoming increasingly important. Thus, such scheme is conducive to companies to understand the differences of audiences and markets and embrace the trend of globalisation. In addition, such scheme shows the attention that the agency gives to seize knowledge and share

knowledge and reflects the importance of knowledge sharing in the company, which in turn, gives their employees a signal of keeping learning and sharing.

*“I should go to more often. So, because W+K is global, so, we have one we look all the work all the offices have done, we have another one which we just look the selection of the best work of the world by different clients. We have regular culture things, about what’s going on in the world. So, we had one just last week about Internet Trials. .... there are a team of guys who take control of those sort of things, making sure there are always goods, stimulating stuff there. So, we all like to the whole point of start. So, stuff like that helps you stay educated, stuff like that helps you keep in touch with what’s going on.” (C25, Planning Director)*

However, some interviewees also mentioned that the learning and sharing is limited to projects or functional departments. How to share what they learn from different projects and transfer their learning among different projects are still problems in the interviewed companies.

### **Knowledge sharing with other account teams**

Although sometimes, the above mentioned sharing mechanisms are used to share knowledge with all the company staff, most times, the sharing is happened within project teams or within the account teams belonging to the same business category. This is related to the advertising business sectors and how the company runs these sectors. Usually, different directors or managers are in charge of different business sectors, such as the cosmetic sector, the retail sector, the car sector, etc. This reflects that some managers may only have a well understanding of the sectors that they are responsible for, but only know a little about other sectors. Therefore, for them, they may only have the motivation to share and acquire the knowledge related to their own sectors rather than wasting their time on the sectors irrelevant to them. This is related to the working style in the advertising industry. Everyone is under high pressure and busy with their daily work. They have to put their time in the areas which can produce the most benefits for them. Therefore, for some knowledge, the sharing is limited to a small group of people. This raises a question in these companies that directors or managers should aware the issue and have a clear idea of what should be shared across the company and what should be shared within some account teams. Otherwise, it is inclined to waste everyone’s time and make the company run inefficiently. The following quotation partly explains what types of knowledge directors should learn and share:

*“So, it's not a problem with knowledge sharing. The knowledge is shared amongst that small team, you know, I never work on [A brand name], I don't know anything about that, ....because I don't really need to know about them, because there is a team of people who dedicated to those clients who have knowledge.” (C21, Managing Director)*

### ***The responsibility of pushing knowledge into the knowledge pool***

In advertising agencies, part of the knowledge sharing responsibility relies on the directors or managers in each department. Generally, the managers or directors of projects or departments manage several projects at the same time, indicating that they know what is happening in different projects and when projects are completed, they know the knowledge acquired and learning happening in different projects. Also, since these directors are in charge of different projects, they are part of the knowledge pool of the company as they acquire a variety of knowledge from varied projects. In the future, when they are in charge of the similar projects, it tends to be an automatic process of recalling the learning they gain in previous projects. In addition, as they have the responsibility of assigning people into different projects, their understanding of who have what types of experience or who have acquired what types of knowledge before will help them make a better match between their colleagues and projects. Therefore, the directors in every department need to undertake the responsibility of pushing the knowledge acquired in the process into the company knowledge pool to facilitate the reuse of the knowledge. They need to summarise the learning of the projects that they are in charge of, and then share the learning with other directors, with the staff in their departments, and with the rest of the company. As states by some interviewees:

*“This agency is a good example where knowledge generally is pushed into pool, that would be the account director, the creative heads, the senior planners, that would be their job. When a brief comes in, they know all the things gone in the agency and they will say, oh, look, you worked on this a little bit ago, could you just come in and let us know what you learnt about that before we start this brief in the agency. They will transfer knowledge in that way. There's very very little in the creative industry that logs knowledge, the files of knowledge in a way that is accessible.” (C3, Account Director)*

*“So, the head of department running each account will be aware of the mistakes, and that the key person remains the same. And our management team remains same for seven years. And I've been here for 19 years. So, that is carrying on the heads of the department. And we are not such a massive company that we could make the same mistakes that we made*

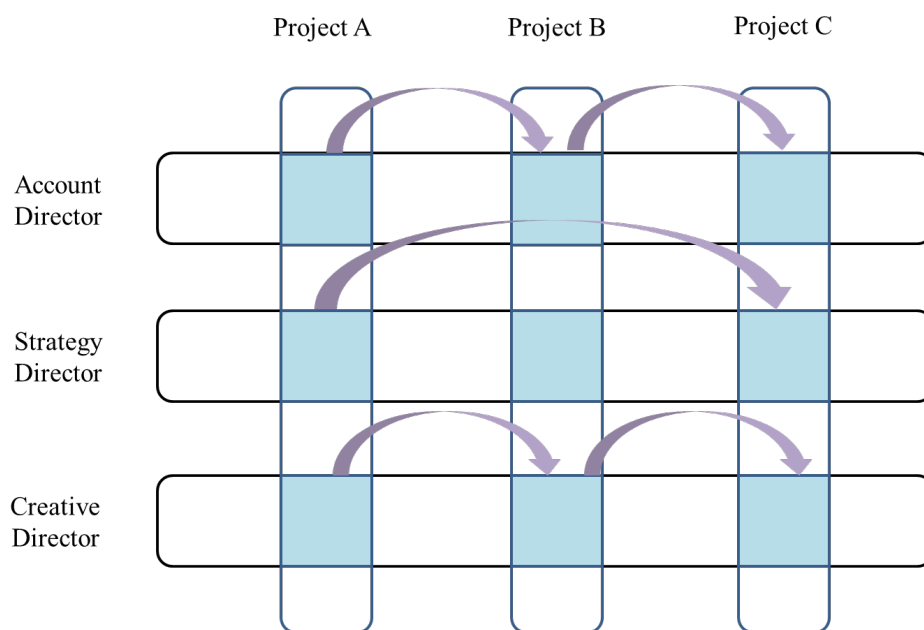
*over here, and not be aware of it. We aware pretty much everything because it's role of the heads of department.” (C4, Creative Partner)*

Since the management team or the directors of each department undertake the role of transferring knowledge among different projects and are part of the knowledge pool of the company, they are critical and significant for the company growth and are part of the company's competitive advantage. This indicates that how to retain their directors is an important issue for the company development. A key person leaving may cause the company into trouble. Therefore, each KIBS firm needs to aware the importance of their directors and the knowledge they possess. Having attractive and promising retaining mechanisms will help the company reduce the quit rate of directors, which, in turn, is conducive to the company growth and development. As stated by one of the respondents:

*“And so, the longevity of these managers is very important as well. Because they carry with them a lot of knowledge.” (C4, Creative Director)*

Therefore, the knowledge transferring across projects has a close association with the directors managing these projects. Particularly when several projects are running at the same time, it is possible for them to transfer the learning among these projects as they are in charge of them. The following figure shows the possible way of knowledge transferring between projects:

**Figure-appendix 5 Knowledge transferring between projects**



Source: Author

## Knowledge sharing difficulties

Learning and sharing are way important issues in KIBS. Most companies have realised their importance and understood that they could do better and should do more in the activities about learning and sharing. Yet, most teams are busy with their daily work and have no time to engage in the sharing activities. Everyone has already endured much pressure for their daily work, which makes them have very little to be spent in other things. Sharing within the project is the most common learning, yet sharing across project teams is rather rare in some companies. As illustrated by one of the respondents:

*“Generally, I think there is less sharing than it should be because quite often every account team works with certain clients, every account team is so busy doing it day-to-day. You don’t know the process with other account teams. So, you would probably apply it within your team, but there isn’t an official way of spreading out learnings. Maybe there should be, but there isn’t.” (C10, Account Director)*

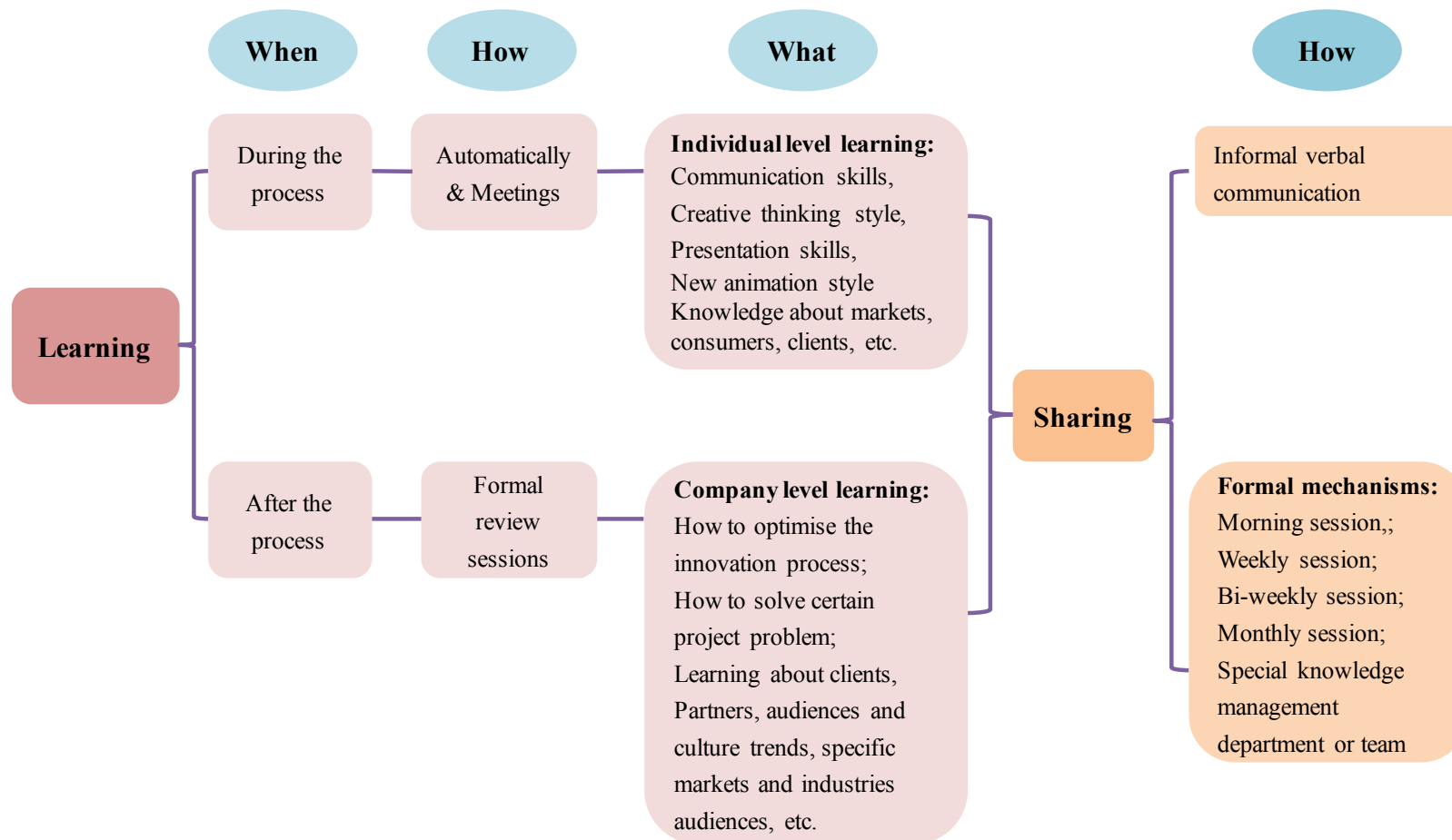
Additionally, not all knowledge is able to be shared. When employees are sharing their knowledge, experience or skills, they can choose what they want to share and keep some part of the knowledge or their experience as secrets. In KIBS industries, knowledge and experience are the employees’ competitive forces. Being selective on the knowledge and experience shared is understandable and reasonable. In addition, some knowledge is lost in human memory. Every day, individuals working in advertising companies receive thousands of pieces of information, not all the information can be remembered or used. Also, people are busy with their daily work and cannot remember all the knowledge they acquired. Therefore, another two difficulties of knowledge sharing are related to human nature of selective on the knowledge shared and knowledge lost in human memory. The following quotation illustrates this finding:

*“I think it’s human nature is you would be selective about what you share. But also, when you quite busy, you often forget to share certain things. And what you need to make sure within the teams is that results are being shared. So, people aware what worked, what didn’t work.....And people on the project come and go, information kind of gets lost, and not everything is transferred. And sometimes, understanding is always communicated in a way which is easy to understand, so you have pieces of knowledge and you taste all the time.” (C16, Creative Director)*



The following figure summarises the learning and sharing occurring in advertising agencies. It includes when the learning happens in the process, how to learn, what to learn and how to share.

Figure-appendix 6 Learning and knowledge sharing



Source: Author

## **Knowledge Management Strategy**

### **The use of knowledge base or technology to store knowledge**

With the technology development, knowledge is becoming easier to be stored, at least for some types of knowledge. The knowledge stored in knowledge databases or somewhere else provide employees a way to check and use it at any time, which increases the chance to reuse the knowledge and reduces the chance of losing the knowledge in human memory. However, like what mentioned by interviewees, technologies do facilitate knowledge sharing, but relying only on documented knowledge stored in databases is insufficient to share knowledge in advertising companies. This is because knowledge is related to the context creating it and not all the information constituting the knowledge is transferable. Thus, communication with the employees who are directly involved in creating or sharing the knowledge is significant in fully understanding the knowledge and gains the insights of the knowledge. For examples, one interviewee explained this point by the following quotation:

*“And people on the project come and go, information kind of gets lost, and not everything is transferred. And sometimes, understanding is always communicated in a way which is easy to understand, so you have pieces of knowledge and you taste all the time. It’s a problem, right…… technology definitely helps. But the problem is it’s so……in terms of data and kind of reflect…knowledge. It’s about how best kind of deal with searching to understand and contextualise that. And it’s difficult, right. You are still relying on the team. But together is a team and kind of remembering that stuff in their mind, and also remembering when to look back to those things.” (C16, Creative Director)*

However, having a systematic knowledge management system can help firms run efficiently and effectively and help them avoid making same mistakes repeatedly. Although in advertising agencies, almost all of them do not have such knowledge or information storage system, most of them expressed, probably they should. At least, in some sense, they do not very reject it. Therefore, there are many opportunities for establishing such systems in KIBS firms.

Therefore, in advertising agencies, the management strategy that they use to manage their knowledge primarily relies on knowledge personalisation strategy, yet, meanwhile, knowledge codification strategy is also used. Using which knowledge strategy is dependent on the property of the knowledge transferred or used. Regarding some types

of knowledge, codifying it is the best way to maximise its reusability, while for some other types of knowledge, codification is difficult, the best way to improve its reusability is to codify its general information, like who possess such knowledge, and then let it be transferred and reused by communication. Although the personalisation strategy takes the dominant role in managing the knowledge in advertising companies, the codification strategy plays a critical role in assisting the implementation of knowledge personalisation strategy. Additionally, with the trend of globalisation, the importance of knowledge codification strategy will be becoming more important in KIBS firms.

## **Conclusion**

The analysis in this section has addressed the research question about how KIBS firms transfer knowledge with their clients, the knowledge flows, and how they learn from the innovation process. In the knowledge creation process, the roles of different project members vary from each other. Account handlers mainly act as the knowledge collector, strategists are the knowledge integrator, and creative teams are the core knowledge creator. In KIBS firms, learning plays a critical role in developing better solutions and exploring new business opportunities. According to the view of interviewees, learning is throughout the innovation process. Most learning occurring during the process can be regarded as the automatically personal behaviour. This signifies that such type of learning basically remains in the individual level. Another type of learning happens after the process or at the end of the process. Such type of learning usually has formal review sessions to gather people together to discuss, debate, learn, and share and can be regarded as company level company. The knowledge that individuals learn from the formal review sessions could be about the innovation process, about certain type of advertising problem, about the client, about partners, about consumers and culture trends, about certain industries and markets, etc. Learning is not the end of how knowledge transfers in the process. The next important step is to share the learning with other colleagues, other teams, or across the whole company to maximise its applicability and reusability. Some companies have more frequent sharing sessions, such as morning sessions or weekly sessions, while some others have bi-weekly sessions or monthly sharing sessions. Based on the empirical evidence, this research finds that advertising firms use two types of knowledge management strategies to

manage their knowledge: codification and personalisation, yet personalisation management strategy occupies the dominant role.

### Appendix 3 The definition of co-creation and co-production

Co-production		Co-creation	
Authors	Definition	Authors	Definition
(Wilson, 1994)	<i>“In human service agencies co-production is a way of theorising the division of labour between patients and professionals or between formal and informal carers.”</i>	(Kambil et al., 1999)	<i>“Co-creation adds a new dynamic to the producer/customer relationship by engaging customers directly in the production or distribution of value. Customers, in other words, can get involved at just about any stage of the value chain.”</i>
(Ostrom, 1996)	<i>Co-production refers to “the process through which inputs used to provide a good or service are contributed by individuals who are not in the same organization”</i>	(Prahalad and Ramaswamy, 2004a)	<i>“Co-creation is about joint creation of value by the company and the customer.”</i>
(Alford, 1998)	<i>Co-production refers to “the involvement of citizens, clients, consumers, volunteers and/or community organisations in producing public services as well as consuming or otherwise benefiting from them”.</i>	(Bonsu and Darmody, 2008)	<i>“Co-creation is a veneer of consumer empowerment in a world where market power, in large measure, still resides in capital.”</i>
(Ramirez, 1999)	<i>Co-production is about “value coproduced by two or more actors, with and for each other, with and for yet other actors”.</i>	(Sanders and Stappers, 2008)	<i>Co-creation refers to “any act of collective creativity, i.e. creativity that is shared by two or more people”.</i>
(Lengnick-Hall et al., 2000)	<i>“Co-production means engaging customers as active participants in the organization’s work.”</i>	(Kristensson et al., 2008)	<i>“Co-creation refers to collaboration with customers for the purposes of innovation.”</i>

(Rice, 2002)	<i>“Co-production involves joint efforts between two parties, who jointly determine the output of their collaboration.”</i>	(Ordanini and Pasini, 2008)	Co-creation means <i>“value, enhanced by the use of a business service, also depends on the resources and competencies that exist in the customer’s organization.”</i>
(Joshi and Moore, 2004)	<i>“Institutionalized co-production is the provision of public services (broadly defined to include regulation) through regular, long-term relations between state agencies and organized groups of citizens, who both make substantial resource contributions.”</i>	(Kohler et al., 2009)	Co-creation <i>“can be considered an engaging activity, be in the mutual rating of the submitted ideas or actually building a three-dimensional model.”</i>
(Brandsen and Pestoff, 2006)	<i>“Co-production, in the restricted use of the term, refers to an arrangement where citizens produce their own services at least in part.”</i>	(Zwass, 2010)	<i>“Co-creation is the participation of consumers along with producers in the creation of value in the marketplace.”</i>
(Bovaird, 2007)	Co-production is defined as <i>“user and community coproduction as the provision of services through regular, long-term relationships between professionalized service providers (in any sector) and service users or other members of the community, where all parties make substantial resource contributions”</i> .	(Zwass, 2010)	<i>“Co-creation is here treated broadly as the activities of individuals/consumers/users in the production domain, generated independently or at the behest of producer organizations.”</i>
(Etgar, 2008)	Co-production is that <i>“consumers participate in the performance of the various</i>	(Ramaswamy, 2011)	<i>“Co-creation is the process by which mutual value is expanded together, where</i>

	<i>activities performed in one or more of these stages (production process). Co-production encompasses all cooperation formats between consumers and production partner” .</i>		<i>value to participating individuals is a function of their experiences, both their engagement experiences on the platform, and productive and meaningful human experiences that result.”</i>
(Pestoff, 2009)	<i>“Co-production is, therefore, noted by the mix of activities that both public service agents and citizens contribute to the provision of public services.”</i>	(Grönroos, 2012)	<i>Co-creation “can be defined as the joint actions by a customer (or another beneficiary) and a service provider during their direct interactions.”</i>
(Armitage et al., 2011)	<i>“We define as the collaborative process of bringing a plurality of knowledge sources and types together to address a defined problem and build an integrated or systems-oriented understanding of that problem.”</i>	(Perks et al., 2012)	<i>“Co-creation involves the joint creation of value by the firm and its network of various entities (such as customers, suppliers, and distributors) termed here actors. Innovations are thus the outcomes of behaviours and interactions between individuals and organizations.”</i>
(Chathoth et al., 2013)	<i>“Co-production means that the customer participates in creating the core offering itself through shared inventiveness and co-design.”</i>	(Chathoth et al., 2013)	<i>“Co-creation is closely tied to usage, consumption, value-in-use (i.e., value that occurs at the time of use, consumption, or experience), and the premise that value can be determined only by the customer”.</i>
(Chen et al., 2014)	<i>“Company sees customers as service providers in the process of production”</i>	(Gummeson et al., 2014)	<i>‘The joint, concurrent, peer-like process of producing new value, both materially and symbolically’.</i>



		(Santos-Vijande et al., 2015)	<i>“Innovation co-creation is defined as a collaborative activity in the development of new products or new services in which one or more agents who are not directly linked to the firm’s internal R&amp;D (such as customers, business partners, or employees) actively contribute to the process by providing and selecting different attributes of the new offer.”</i>
		(Konu and Komppula, 2016)	Co-creation <i>“refers to the interaction and collaboration of organizations, groups and individuals in order to jointly generate solutions and to create value.”</i>

#### Appendix 4 The four core creativity related awards in advertising

Awards	Description <sup>18</sup>
Cannes Lions	The Cannes Lions International Festival of Creativity, which is formerly known as the International Advertising Festival, is a global event for the people working in the creative communications industry. It is regarded as the world's biggest ad festival. Every year, it attracts thousands of companies from around the world to attend the festival. These companies will view shortlisted work, attend seminars, workshops and master classes in the festival.
Warc Prize-- Innovation	WARC Innovation Awards is set to encourage innovative thinking delivering tangible results. It seeks for the use of innovative strategies that utilise new technology or old technology in a new way.
D&AD	This award emphasises more on the individual input in developing new advertisement rather than on the whole project. D&AD celebrates and nurtures excellent work in design and advertising by giving awards to the finest work each year. A D&AD Pencil is acknowledged the very highest creative achievement in the world.
IPA Effectiveness	IPA Effectiveness emphasises more on them advertisement effectiveness. Winning an IPA Effectiveness Award is recognised as excellence by agency industry peers and senior clients. The competition of IPA Effectiveness is recognised as the most rigorous competition in the advertising industry around the world.

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<sup>18</sup> The description of these awards is from their websites.

### Appendix 3 The interview information

No.	Firm Code	Group/ Independent	Interview Position	Established	Traditional or digital	Location	No. of staff	Size	Duration	Interview Date
1	C1	Group	Chief Executive	1973	Traditional	Manchester	360	Big	75 mins	01/05/2014
2	C2	Independent	Managing Director	1998	Digital	London	50	SME	45 mins	06/05/2014
3	C3	Group	Creative Director	2001	Digital	Manchester	50	SME	50 mins	08/05/2024
4			Creative Director						70 mins	04/11/2015
5			Account Director						105 mins	11/11/2015
6			Senior Strategist						70 mins	16/11/2015
7	C4	Independent	Creative Partner	1996	Traditional	London	220	Big	60 mins	14/05/2014
8			Creative Partner						70 mins	28/09/2015
9			Creative Officer						60 mins	20/11/2015

10			Strategy Director						65 mins	20/11/2015
11			Managing Director						65 mins	12/01/2016
12			Production Director						40 mins	20/11/2015
13			Chief Executive						30 mins	19/05/2014
14	C5	Independent	Creative Director	1987	Traditional	Manchester	85	SME	95 mins	27/11/2015
15			Head of Strategy						70 mins	17/12/2015
16	C6	Independent	Chief Executive	30 years ago	Traditional	Manchester	50	SME	45 mins	23/05/2014
17			Executive Creative Director						71 mins	27/05/2014
18	C7	Group	Executive Creative Director	1964	Traditional	Manchester	140	Big	90 mins	13/11/2015
19			Strategy Director						75 mins	30/11/2015
20	C8	Group	Creative Partner	2007	Digital	London	100	Big	62 mins	29/05/2014

21	C9	Independent	Director	2004	Digital	London	Around 35	SME	65 mins	06/06/2014
22	C10	Group	Chief Creative Officer	1948	Traditional	London	320	Big	67 mins	06/06/2014
23			Chief Creative Director						75 mins	19/10/2015
24			Account Director						72 mins	23/10/2015
25			Account Director						55 mins	05/11/2015
26			Planning Director						80 mins	03/11/2015
27			Planning Director						60 mins	21/12/2015
28	C11	Independent	Executive Creative Director	2006	Digital	London	65	SME	35 mins	10/06/2014
29	C12	Independent	Creative Director	2000	Digital	London	160	Big	59 mins	30/06/2014
30	C13	Independent	Creative Director	2002	Digital	Edinburgh	20	SME	80 mins	10/07/2014

31			Creative Director						80 mins	17/11/2015
32	C14	Group	Creative Director	1981	Traditional	London	326	Big	42 mins	16/07/2014
33	C15	Group	Managing Director	1972	Traditional	London	200	Big	80mins	18/06/2015
34	C16	Group	Creative Director	1980	Traditional	London	700	Big	70mins	15/06/2015
35	C17	Group	Creative Director	1981	Traditional	London	250	Big	75 mins	09/07/2015
36	C18	Independent	Creative Director	1998	Digital	London	647	Big	70 mins	18/06/2015
37	C19	Group	Head of Strategy	1998	Digital	London	140	Big	60 mins	11/02/2016
38	C20	Group	Head of Strategy	1970	Traditional	London	493	Big	60 mins	12/01/2016
39			Creative Director						60 mins	29/01/2016
40	C21	Group	Managing Director	2002	Digital	London	480	Big	70 mins	12/01/2016
41	C22	Group	Managing Director	1962	Traditional	London	378	Big	65 mins	20/01/2016

42	C23	Independent	Head of Strategy	1995	Traditional	London	213	Big	40 mins	26/01/2016
43	C24	Independent	Managing Innovation Partner	2000	Digital	London	250	Big	55 mins	26/01/2016
44	C25	Independent	Planning Director	1998	Digital	London	200	Big	80 mins	26/01/2016
45			Creative Director						75 mins	25/02/2016

Source: Author

## **Appendix 6 Semi-structured interview protocol**

### **I. Overall issues**

- Introduction: this research is an exploratory study of innovation in the advertising industry. I would like to discuss your perspectives about the advertising service innovation, innovative advertisement development process in your company, how your company works with your clients, your perspective of co-creation, your understanding of the innovativeness in projects and its influences, and how your company transfers knowledge with clients in the innovation process as well as how your company manages knowledge.
- Signing consent form;
- Main objectives:
  - To understand advertising innovation and the nature of advertising innovation;
  - To understand the new advertisement development process;
  - To understand the contribution of client in the new advertisement development process;
  - To explore roles of clients and the intensity of client involvement in the new advertisement development process;
  - To explore advertising professionals' understanding of project innovativeness;
  - To explore the main elements influencing project innovativeness;
  - To understand how project innovativeness influences the innovation process;
  - To explore how the knowledge is transferred between the advertising firm and the client firm;
  - To explore how advertising firms learn from the innovation process and apply what they learn in other projects.

### **II. Background information about advertising companies**

- What is your role in your company? What is your main responsibility?
- What is the organisational structure in your company? (The main departments and the number of employees)
- What types of clients does your company have?



### **III. Advertising innovation**

- In your opinion, what is advertising innovation?
- What are the characteristics of advertising innovation?
- How to develop innovative advertisements?
- What are the forms of innovative advertisements?

### **IV. About innovation process and co-creation**

- Contract:
  - How does your company develop new business?
  - What types of contract are the main business of your company?
- New service development process:
  - What are the new advertisement development stages after signing the contract?
  - Who are the key participants in each stage and who takes the main responsibility in different innovation phase?
  - Can you explain the creative process in detail?
  - Usually, when should creative professionals get involved in the process?
  - What the main sources of creative ideas?
  - Will the client invite you to be involved in their innovation processes?
- Co-creation
  - How do you think of co-creation?
  - Is co-creation important in your company?
  - Do clients participate in the innovation process actively?
  - What are reasons of co-creating with clients?
  - When should client get involved in the process?
  - What activities should clients perform across the process?
  - What are roles clients should undertake in different stages?
  - Which stage does your company have the most intense interaction with your clients?
  - Which stage does your company have the lowest intense interaction with your clients?

- What are the interaction approaches that your companies used to interact with your clients in different stage?
- Is there any example that you co-create ideas with clients?

## **V. Project Innovativeness**

- How do you understand project innovativeness?
- What types of project can be regarded as innovative projects to you?
- What are the key determinants of project innovativeness? (How do you define project complexity?)
- In your company, how does project innovativeness influence the new service development process and the co-creation within it?
- In your company, how does project innovativeness influence the level of competences of participants? Is there any difference of the participants involved in routine projects and innovative projects in the innovation process in the aspects of their positions, their competencies and responsibilities from both the agency side and the client side? How to confirm the participants?
- Is there any influence of project innovativeness made on the decision makers' involvement in the project?
- Is there any influence of project innovativeness made on the communication required with clients?

## **VI. Knowledge management and learning**

- What types of knowledge can your company acquire from your clients?
- How does your company manage the knowledge emerging from the process?
- Does your company have any mechanism in managing knowledge?
- What types of learning can you learn from the innovation process?
- How does your company/ do you apply the knowledge learnt from process in the future projects?

## Appendix 7 Information page sent out to interviewees



### Information page for interviewees' participation in PhD research projects

You are being invited to participate in a research project. Before you decide whether you want to attend or not, it is important for you to understand the reason of conducting the research and the issues involved in the project. Please take time to read the following information carefully and discuss it with others if you wish. Please ask if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part. Thank you for reading this.

#### **Q1: Who will conduct the research?**

The name of the researcher: Fengjie Pan

School: The University of Manchester, Alliance Manchester Business School (The University of Manchester, Booth Street West, Manchester, M15 6PB)

#### **Q2: Title of the Research**

Title: Managing knowledge and co-creation in service innovation: the case of the advertising industry

#### **Q3: What is the aim of the research?**

The aim of the research:

1. To explore advertising innovation and understand the perceptions of advertising managers towards advertising innovation as well as explore the nature of service innovation in advertising;
2. To conceptualise service innovation process and explicate the new service development stages;
3. To explore how clients engage in the new service development stages;
3. To conceptualise project innovativeness and explore its influences on the new service development process;
4. To investigate how advertising firms and clients transfer knowledge and how advertising firms learn from the innovation process.

**Q4: Why have I been chosen?**

The participants are the directors of the advertising companies located in Manchester and London. I plan to conduct around 40 interviews.

**Q5: What would I be asked to do if I took part?**

As the research method is interview, what the participant need to do is answering questions (No confidential questions) asked by the researcher.

**Q6: What happens to the data collected?**

After the data collected, the researcher will use template analysis method to analyse the data.

**Q7: How is confidentiality maintained?**

All the audio-taped records are just for getting accurate notes about the interview. It is for getting better interview results. The records are only used in analysis. If the participants like, the researcher can also send them the notes of the interview record. If there are any inaccuracies which you would like to correct, or any views or information which you would prefer to be anonymised, the researcher would be pleased to carry this out. The research claims all the interview content is just for research. It cannot be used in any other places and for any other purpose.

**Q8: What happens if I do not want to take part or if I change my mind?**

It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep and be asked to sign a consent form. If you decide to take part you are still free to withdraw at any time without giving a reason and without detriment to yourself.

**Q9: Will I be paid for participating in the research?**

Sorry, all the participation is voluntary and the researcher does not provide any payment for participation.

**Q10: What is the duration of the research?**

Duration of the interview: around 1 hour interview.

**Q11: Where will the research be conducted?**

The researcher will respect the participants' convenience. The researcher prefers to have face-to-face meetings. If the participant agrees, the researcher will conduct the interview in the participant's company.

**Q 12: Will the outcomes of the research be published?**

Yes.

**Q13: Contact for further information**

If you have any questions about the study please do not hesitate to ask me. Please contact me via email [fengjie.pan@postgrad.mbs.ac.uk](mailto:fengjie.pan@postgrad.mbs.ac.uk) or by phone +44 07565156053.

## Appendix 8 Consent form signed by interviewees



### Managing knowledge and co-creation in service innovation: the case of the advertising industry

#### CONSENT FORM

If you are happy to participate please complete and sign the consent form below

**Please  
Initial  
Box**

1. I confirm that I have read the attached information sheet on the above project and have had the opportunity to consider the information and ask questions and had these answered satisfactorily.
2. I understand that my participation in the study is voluntary and that I am free to withdraw at any time without giving a reason and without detriment to any treatment/service.
3. If you would like to be sent a copy of the notes of the interview for your review, for example, to anonymise any information, please indicate here.

I agree to take part in the above project.

Name of participant

Date

Signature

Name of person taking consent

Date

Signature