DEVELOPMENT OF NEW SERVICES IN SMALLER ORGANISATIONS: THEY DO JUST HAPPEN

Patrik Gottfridsson, PhD
Service Research Center, Karlstad University
SE-651 88 Karlstad, Sweden
E-mail: Patrik.Gottfridsson@kau.se

ABSTRACT

The aim of this study is to investigate how new services are actually developed in real life in small companies. Although conventional models of service development emphasise the importance of formal and structured processes, it is unclear whether most service development really is conducted in this way, and whether these formal models might merely represent theoretical structures that have been retrospectively imposed on the actual process. In particular, it is unclear whether the conventional view of formal and structured processes is applicable to smaller organisations with fewer employees. The present study therefore presents the findings from in-depth case studies of service development in eleven small Swedish companies. The study concludes that that it is difficult to identify any clear intention to pursue formal development processes in the companies studied here. Rather, service development could generally be described as 'unstructured' in all phases (planning, development, and market launch). Moreover, these phases overlap and impinge on one another in a flexible, unstructured, and informal manner. The study examines and explains the reasons for this generally unstructured approach to service development in smaller firms.

Keywords: *New Service Development, Small Companies, Entrepreneurship*

1. INTRODUCTION

Although Rathwell (1974) asserted that new services [just] happen, it would seem that most researchers with an interest in service development have sought to establish that such spontaneity is not the case, and that services are actually developed through organised and structured development processes (Bowers, 1988, 1989; Booz et al., 1982; Scheuing and Johnson, 1989). Indeed, some studies have claimed that the use of more formal and structured processes leads to the development of more successful services (Edgett, 1996; Johne, 1994; deBrettani, 1991).

Nevertheless, despite the preponderance of research in support of the importance of such formal and structured processes, several authors have questioned whether most service development is *really* conducted in this way, and whether the notion of a formal and structured development process might often be a theoretical rationalisation that has been retrospectively imposed on the actual process (Akamavi, 2005; Bowers, 1989; Edgett, 1996; Johne and Storey, 1998; Martin and Horne, 1993; Stevens and Dimitriadis, 2004). In particular, questions about the existence of formal and structured processes have been raised with regard to smaller organisations with fewer employees. As Hoffman (1998, pp 39–40) observed, small companies "do not necessarily innovate in formally recognised ways".

According to Gottfridsson (2001), there are several reasons why smaller organisations are more inclined to work in informal and unstructured ways in all of their business processes, and even more so when it comes to the development of new services. First, given that many small companies are under the control of only one person, the owner–manager, whose personality and skills largely determine how the firm is run (Sweeney, 1987: Burns, 1996: Storey & Sykes, 1996), it is likely the personal characteristics of the dominant individual will also have a significant influence on the way in which service development is conducted in such companies. Secondly, small companies commonly exhibit greater closeness and informality among major stakeholders (managers, employees, and customers) than is the case in larger firms (Rothwell and Zegveld, 1982, Rothwell, 1983), which facilitates flexibility in the conduct of business and the generation of new ideas. Thirdly, because small enterprises tend to have fewer internal resources (both financial and knowledge-related), they need to cooperate with external operators to a greater extent than larger firms (Rothwell and Zegveld, 1982; Rothwell, 1993), which is likely to influence the way in which service development is conducted (compared with firms that have the required resources available within the enterprise).

It is therefore reasonable to conjecture that smaller organisations are more likely to work in informal and unstructured ways when developing their new services. To investigate this issue, the present study examines how services are actually developed in small companies by undertaking an in-depth qualitative analysis of eleven small Swedish firms involved in a variety of service sectors.

The remainder of the paper is structured as follows. The next section presents a review of the relevant literature to establish the theoretical foundations for the study. The methodology of the empirical study is then described. The findings of the study are then presented and discussed, thus providing a description of how service development actually proceeded in the small companies examined here. The paper concludes with a summary of the main findings in the context of the existing research in the field.

2. THEORETICAL FRAMEWORK
2.1 Linear service-development models
A large number of more-or-less structured models have been proposed from various perspectives to describe how services are developed. In general terms, these models can be categorised into three broad groups (Johnson et al., 2000). The first group of models, the so-called 'partial models', focus on particular aspects of the service-development process—such as how to generate ideas (Kristensson, 2003) or how to involve customers in the development of services (Sandén, 2007; Matthing, 2004). The second group of models, the so-called 'translational models', draw on alleged similarities between the development of new products and the development of new services; an example is the 'Booz–Allen–Hamilton' (BAH) model (Booz et al., 1982). Finally, the third group of models, the 'comprehensive models', seek to provide a holistic view of the service-development process (Johnson et al., 2000).

A common characteristic shared by most of the models in all of these categories is that they purport to describe a sequenced and structured approach to the development of new services. For example, Scheuing and Johnson's (1989) detailed model consisted of fifteen sequential steps describing how services are (or should be) developed.

Other authors have proposed models that adopt non-linear approaches (of one sort or another) to describe how services are developed (see Johne and Storey, 1998, for a review of such models). However, even if they are less rigidly sequential than earlier models, it is still possible to identify at least three (rather broad) phases of service development in these models (Lievens et al., 1999):
* *Planning:* pre-development activities; idea generation and screening; preliminary market and technical assessment; market research; financial and business analysis; and concept development and evaluation;
* *Development:* service design; process development; and in-house service testing by customers and frontline staff.; and
* *Market launch:* marketing and training of frontline staff; and marketing to the customer.

During the first phase, the *planning* phase, the idea for the new service is generated and evaluated. Important actors in this phase are said to include both the customers (Pitta & Franzak 1996; Von Hippel et al., 1999; Herstatt & Von Hippel, 1992; Berry & Hensel, 1973) and the frontline staff (Edvardsson et al., 2000; Sundbo 1997, 1998). Although many authors have contended that the idea-generating process should be conducted in a structured and formal way (Edgett 1996; Johne 1994; de Brentani, 1991; Iwamura & Jog 1991), the reality is that the generation of ideas is seldom conducted in this manner (Easingwood, 1986; Bowers 1988, 1989). In particular, there is evidence that ideas are seldom formally generated by customers and/or frontline staff; rather, most ideas appear to come from competitors and/or from complex internal processes within the company (Edvardsson et al., 2000; Sundbo, 1997, 1998). Indeed, as Smith and Fischbacher (2005) have observed, it is often difficult to establish exactly where a particular idea has actually come from, with most ideas apparently being generated from various encounters between a variety of actors with different kinds of knowledge and perspectives.

In the second phase, the *development* phase, the previously generated ideas are refined into a service for the market. This extensive phase includes the development of the service concept, the service system, and the service-delivery processes (Edvardsson et al., 2000).

The final phase, the *market launch* phase, in concerned with how the services are to be actually introduced to the market.

2.2 Non-linear service-development models
The picture presented by all of the models described above suggests that it is of great importance for successful service development that the work is conducted in a formal, structured, and planned way (Edgett, 1996: Johne, 1994; de Brentani, 1991). However, several authors, including Edvardsson et al. (1994), have claimed that the empirical evidence for the existence of such formal structured processes is weak; in other words, it is doubtful whether the models describe how service development is really conducted in companies in the real world. According to these critics, real service-development proceeds in a much more informal manner; indeed, it could be said that formal development processes might actually impede the creativity needed to develop successful new services.

Johne and Storey (1998) have also contended that service development is really conducted in a relatively informal manner. According to these authors, the final design of the service actually takes place in the unique interaction between an individual provider and an individual user—which means that the final outcome of any process of service development is not ultimately dependent on a prefabricated, detailed, and fixed service concept. From this perspective, the appropriate *outcome* could be described as the vital issue for consideration in developing a given service, rather than focusing on the development of a *fixed service design* for that service (Edvardsson, 1993). This is especially true in the case of personalised services that are created to solve specific problems by utilising the skills and knowledge of both the service provider and the customer (Sundbo, 1997, 1998). It is apparent that formal standardised service routines play a minimal role in the development of such services; indeed Sundbo (1997, 1998) has described service development as an ongoing search in which various solutions are tested by a process of trial and error and learning from experience. In these circumstances, the service-development process essentially involves gathering information and transforming knowledge to form consumer-specific service concepts, routines, and delivery systems (Sundbo. 1997). Similar conclusions have been drawn by, among others, Bowers (1989), Martin and Horne (1993), and Edgett (1996)—all of whom have demonstrated that service-development work is rarely undertaken as a formal process.

In response to such critiques of the traditional models, Johnson et al. (2000) have proposed a model that describes service development as a reiterative and non-linear process that is more akin to a 'development cycle' than a sequential program. This 'development cycle' represents the intersection of two phases, which can be characterised as 'planning' and 'execution'. As shown in Figure 1, the first phase of the development cycle, the planning phase, consists of two sub-phases called 'design' and 'analysis'. Activities in the these sub-phases include formulation of the service-development strategy, generation of ideas, development of the service concept, and analysis of the new service from a commercial perspective. In the second phase of the cyclical process, refinement of the service takes place in two sub-phases called 'development' and 'full launch'. This model thus proposes that service development proceeds in a continuous cycle, in which the various phases of the process overlap and continuing development is derived from the experience gained from previous phases.

2.3 Central themes in managing service innovation
In an extensive review of the literature on service innovation, Schilling and Werr (2009) identified a number of central themes that require attention in managing the service-innovation process. Four of these themes are especially relevant to the present study:
   * managing a network of relationships;
   * formalising the innovation process;
   * involving customers and front-line employees; and
   * creating a climate for innovation.
   Each of these themes is discussed below.

2.3.1 Managing a network of relationships
Just as cooperative interaction among various actors has been posited as vital to a successful service offering (Grönroos 1990), such collaboration is essential to the service-development process itself (Johne & Storey, 1998; Syson and Perks, 2004; Johansson and Vahlne, 1992). Indeed, Schilling and Werr (2009) have contended that successful innovative service firms must see themselves as part of an *innovation network* in which they interact to exchange resources, knowledge, and ideas with various actors in their environment, such as customers and innovation partners. To manage such a network, these various actors must be involved in a way that facilitates communication and creates a climate in which actors feel motivated to contribute and be creative. In a similar vein, Stevens and Dimitriadis (2004, p. 1075) have described the process of new service development as:

… a cooperative, interactive, [but] not very formalized process involving actors from different departments of the company … [whereby] the organisational structure, the communication networks, and the working processes are transformed …

2.3.2 Formalising the innovation process

Several authors have suggested that a formalised service-development process enhances innovation (Edgett, 1996: Johne, 1994; de Brentani, 1991). Such a process is said to ensure a more predictable and manageable process that facilitates new service development.

The nature of any such formalised process is contextual—depending on such factors as the size of the firm, the nature of the service, the service sector, and the customers. Moreover, there is evidence that formalisation of the innovation process occurs much less frequently in service firms than in manufacturing firms (Bowers, 1989; Martin and Horne, 1993; Edgett, 1996). Indeed, Edvardsson (1997) has even argued that formalised processes have the potential to hamper the creativity needed for developing successful services.

2.3.3 Involving customers and front-line employees

Successful innovation is likely to be enhanced if a firm acquires external knowledge (such as that from customers and competitors) to complement its own internal knowledge acquired through incremental learning. In this regard, it has been argued that one way to acquire such external knowledge in support of service innovation is to recruit and retain experienced and insightful frontline employees who have been exposed to customer needs and can thus bring valuable knowledge into the organisation (Leiponen, 2005). However, to achieve maximum benefit from these front-line employees, it is necessary for them to be released (at least to some extent) from their ordinary day-to-day tasks in order to spend time on the innovation process.

It would also be logical, at least in theory, to acquire such external knowledge by directly involving customers in the service-innovation process. As Edvardsson (1997, p. 33) has noted: "Attractive and customer-friendly services emerge from a dialogue with competent and demanding customers". However, there is some evidence that the new service ideas suggested by customers tend to be generally less feasible to produce (Magnusson et al., 2003), and although it would seem that customers can be a valuable source of information (Abramovici & Bancel-Charensol, 2004), the reality is that they are seldom much involved in the service-development process (Edvardsson et al., 2000; Sundbo, 1997, 1998).

2.3.4 Creating a climate for innovation

Several studies have argued that the 'right' organisational climate can facilitate innovation by fostering creativity, idea generation, and knowledge sharing (Mascitelli, 2000). However, actually defining and implementing the 'right' climate is more difficult to achieve in practice than in theory.

3. METHODOLOGY

3.1 Research framework and definitions

To investigate how smaller enterprises develop new services, the present study undertook a qualitative analysis of a relatively small number of Swedish enterprises (11 firms) in Mid-Sweden over a relatively long period of time (18 months). In choosing the eleven companies, the aim was to obtain information-rich data in accordance with Patton's (1990, p. 169) recommendation that subjects should be selected "… from which one can learn a great deal about issues of central importance to the purpose of the research".

For the purposes of this study, a 'small company' was defined by a combination of quantitative and qualitative criteria: (i) an enterprise with fewer than 49 employees, which thus included so-called 'micro' enterprises (fewer than 10 employees) (Burns, 1996); and (ii) a company controlled by the owner of the company and not part of a larger enterprise (Bolton, 1971).

The study chose to examine *personalised services*. A 'service' was defined in the present study in accordance with Grönroos' (1990, p. 27) definition:

> A service is an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interaction between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.

A 'personalised' service was understood to be a service that was individually designed to address a customer's specific problem and created by utilising the skills and abilities of employees in interaction with the customer (Sundbo, 1997).

The concept of 'service development' used in the study encompassed the development of new services and/or the redesign and refinement of existing services. This included all activities from when an idea for a new/refined service first materialised until when the new/modified service reached the market (Edvardsson et al., 2000).

3.2 Sample and data collection

Table I provides a summary of the eleven small Swedish businesses that were chosen in accordance with the criteria noted above.

Insert Table I about here
Table I: Summary of the studied companies

Data were collected by interview. Three interviews were conducted with the owner–manager of each firm over a period of 18 months. Between the interviews, contact was made with the interviewees (by email and telephone) to monitor their progress, clarify any unclear issues arising from the interviews, and determine a time for the next interview. The interviews were semi-structured to allow for flexibility with regard to questions and to provide respondents with the scope to explain their views more freely. Interview protocols were used to ensure that consistent data analysis was possible across all interviews (Yin, 1994).

The interviews were recorded and transcribed. The data were then submitted to open coding based on the respondents' own words (Miles and Huberman, 2004). This open coding was then abstracted to a higher level of categories, which described the way in which the development task was undertaken.

4. FINDINGS AND DISCUSSION

In general, the companies in this study developed new services in an informal way with no clearly structured development processes. The manager of the media company was quite explicit in stating that his company adopted quite informal and unstructured processes:

> We are led by no formal methods—or almost none, or at least very few—but we certainly have
> no documentation, no meetings, nothing like that.

In many of the companies a decision to work with informal processes was a conscious choice by management, who felt that the smaller the administration, and the fewer the formal processes, the better. The manager of the branding company put it this way:

> It is obvious that we … need some guidelines for the process, but I'm probably a bit more inclined to adopt a somewhat chaotic approach … There is certainly no time for us to get involved in formal administration of the process. In fact, I'm a strong opponent of such formal administration. I support the use of more intuition in innovation rather than formal models …
> To have a principle that it should start in a pre-defined place, followed by a series of formal meetings where decisions are taken, is completely unthinkable for us.

In most cases, service development was conducted by one person, or at least very few persons. This enabled the development work to be coherent and ongoing without any formal structured processes. This situation was most clearly apparent in the language and culture company, in which all of the development work revolved around the manager, who personally supervised and directed all development activities in accordance with his agenda and interests.

In the companies that had only one (or very few) people involved with service development, the work often took place in the midst of routine daily activities—depending on when the manager had the time and opportunity to engage in developing services. In these circumstances, the development work was sometimes quite intense, but at other times the development work was more or less non-existent because the manager was engaged in other tasks. The difficulty of finding enough time to pursue a formal structured service-development process was expressed by the manager of the slum clearance company in the following terms:

> This is, of course, the small business owner's dilemma … that there never seems to be enough time. And I have always been one of those persons who have thought that way. [But] there is always actually *some* time available [depending on] on how time is prioritised. That said ... if I

had to take a whole day (or even a few hours or so) on formal development work it would be very difficult indeed.

Some respondents claimed that the rapid pace of market change precluded formal structured processes of innovation, which were perceived as being slow and relatively inflexible. This view was articulated by the manager of the web company:

> ... in this business, so much is happening and it goes so fast, that we have to work in a more flexible fashion than they do in other business sectors.

The rapidly changing market was also a problem for the slum clearance company, whose manager claimed that they attempted to be formal, but that they could not do so because the market situation always threw up unexpected problems that had to be solved immediately to satisfy their customers:

> We try to work with structured projects and articulated visions and so on, but things always turn up that we didn't know beforehand. We really do try to follow a structured and planned path, but we get disturbed all the time …

Certain activities that could be described as 'development work' also occurred in some companies at the level of the individual employee—such as front-line staff members learning about various matters that enable them to create new solutions for customer problems. Some of this competence development occurred as a natural consequence of the employees' day-to-day work, but in some instances employees were involved in more formal training by attending courses or by undertaking personal study. However, such competence development could hardly be described as a formal service-development process within the organisation because it took place at the level of individual employees and was not linked to any formal processes or meetings on the development of new services from a company perspective.

Although the majority of development activities in the respondent companies was conducted on an informal basis, some of the companies had nonetheless decided that it might be advantageous to adopt a more structured process in some aspects of service development. For example, the manager of the web company recognised that his company will have to collaborate with external actors to develop new services in future, and that a more structured process will be required to ensure that this co-operation is effective. As the manager observed:

> We will be compelled to work in a more structured way … in the future. There are bound to be processes [that we will have to adopt] in order to involve other actors in the process … The simple fact is that we will need to have some sort of project plan in future.

Another reason cited by respondents for formalising development processes in the future was the need to grow the company. For example, the manager of the slum clearance company was quite explicit in stating that ongoing growth would require a somewhat more formalised innovation process. This view is in accordance with the recommendations of several researchers (Edgett, 1996: Johne, 1994; de Brentani, 1991), who have claimed that a more formal innovation process provides a more predictable and manageable process that facilitates faster new service development. Nevertheless, the manager of the slum clearance company was aware that the processes must not become too formalised, and thus stifle creativity. This view is in accordance with Edvardsson's (1997) warning that excessively formal processes can hamper the creativity that is needed for developing successful services—especially in firms that have become used to working in an informal way to make things happen.

The generally informal and unstructured nature of the development work in the respondent companies was also evident in the various phases of the development process. For example, none of the companies utilised structured processes to generate new ideas; rather, such ideas were usually generated informally by an actor in the company (usually the manager) suggesting an idea of how its services could be developed. These ideas had usually arisen from the interactions between various individuals. In a similar vein, decisions on which ideas should be pursued also proceeded in an informal way during discussions with various parties (both within and outside the company). It was apparent from the interviews that decisions were often made without any agreed criteria; indeed, from the perspective of an objective observer, the decisions were apparently based on intuition and arbitrary subjective assessment on the part of the manager.

The informal and unstructured approach was also evident in relation to what Wilhelmsson and Edvardsson (1994) and Jönsson (1995) have described as the 'design' work. It was often difficult to identify exactly how various players contributed to transforming an idea into a finished service; indeed, the participation was

sometimes so informal and random that the individuals involved were not even aware that they were contributing to some form of service development.

Finally, it should be noted that the ultimate design and the final implementation of a given service were often conducted simultaneously—because these aspects of new service development required trial-and-error interaction between the customer and the service company when the service was delivered. This is necessarily a relatively unstructured and flexible process. The fact that certain aspects of the development process overlap and impinge on one another has also been described by Jönsson (1995) in her study of the Swedish telecommunications industry.

5. CONCLUSIONS AND IMPLICATIONS

On the basis of the overall data collected from the respondent companies in this study, it is difficult to identify any clear intention to utilise formal development processes for new services. On the contrary, service development among these firms could best be described as 'unstructured', with the three general phases (planning, development, and market launch) (Lievens et al., 1999) overlapping and impinging on one another. For example, during the design of a developed service, new ideas often appeared with regard to how that service might be modified and/or how entirely novel services might be created. An important factor in this unpredictability was the fact that the ultimate design and final implementation often took place simultaneously during a process of collaborative problem-solving with the customer.

It is thus apparent that service development in the small firms studied here differed significantly from the picture presented in most conventional theoretical models of how service development is (or should be) conducted. One of the reasons for this is that new *service* development, as opposed to new *product* development, is often dealing with intangibles (Cooper and Edgett, 1999). Most of the work in service development involves exchanges of information and knowledge, much of which is gradually accumulated through trial and error as personalised services are delivered to customers through the company's pre-existing expertise and subsequent skills development. Moreover, much of this skills development takes place at the level of individual employees as part of their ongoing work and interpersonal interactions in informal networks, both within the company and with external players (Ylinenpää, 1997; Grönroos 1990; Johne & Storey, 1998; Syson and Perks, 2004; Johansson and Vahlne, 1992; Schilling and Werr, 2009). All of this makes it even more difficult to discern any definite structure in the development of new services by small companies such as those studied here.

Another reason for these firms choosing to work without formal processes was their stated desire to avoid 'red tape' and retain their creative freedom by working more informally. Moreover, some of the companies stated that they did not have the time to work with burdensome and time-consuming structured processes. Nevertheless, some of the companies did perceive that they would need to formalise their development processes in future in order to streamline and accelerate the pace of development. Although they stated that they do not want bureaucratic processes, these companies claimed that they would like to organise themselves in other ways to facilitate service development. However, for most of the companies in the present study, these professed intentions with regard to trying a more structured approach do not appear to have proceeded beyond mere words.

Finally, the lack of formal processes in the small businesses studied here was undoubtedly linked to the fact that these firms were generally controlled by one person, around whom all work (including development work) revolved. As a consequence, one person was responsible for both the everyday practical work of the business *and* the planning and implementation of new service development. The result was that there was little time available for formal processes of development work when everyday work was more intense and demanding (Sundbo, 1998; Westerberg, 1998). In these circumstances, owner-managers usually chose to give priority to their immediate practical activities, rather than the more nebulous demands of future service development. This meant that the service-development work was often undertaken 'by chance'—when time and other resources happened to be available.

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Patrik Gottfridsson, who holds a PhD in business administration, is a researcher in the Service Research Center, Karlstad University, Sweden. His research focuses on service development, network theory, and relationship management.