



Organisational conditions for service encounter-based innovation

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ABSTRACT

This article investigates the organisational conditions for service encounter-based innovation. Its focus is on the initial crucial part of the innovation process during which ideas/new practises are developed by front-line employees and integrated in the organisation. The article argues that service encounter-based innovation varies among service organisations because of different organisational conditions. This is illustrated in a multiple comparative case study of 11 Scandinavian service organisations. A model of conditions for service encounter-based innovation is developed based on the theoretical discussions and the case study. The model suggests how and why some service organisations derive innovation benefits from service-encounters while others do not. Thus, the article provides new and important knowledge concerning user-driven innovation in services.

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1. Introduction

In recent years there has been an increased emphasis on the important role of users in innovation processes (Morrison et al., 2004; Baldwin et al., 2006; Alam, 2002; Kristensson et al., 2008), and in relation to this we have seen the concept of *user-driven innovation* gaining a central place in the innovation discourse (e.g. von Hippel, 2005; Heiskanen and Repo, 2007). User-driven innovation seems particularly relevant in the service sector because the production and delivery of services are often based on *service encounters* between service organisations' employees and their users or customers (Gallouj and Weinstein, 1997; Edvardsson et al., 2000; Sundbo and Toivonen, 2011). Such encounters have received attention in the service marketing literature in which it is often stated that innovation is based on customer relations (Danaher and Mattsson, 1994; De Ruyter et al., 1997), and is frequently linked to service delivery processes (Toivonen and Tuominen, 2009). Nevertheless, we still lack in depth studies of how service encounters can facilitate innovation processes and hence support service encounter-based innovation, which we define as innovation that develops from ideas, knowledge, or practices derived (one way or another) from frontline service employees' meetings with users in the service delivery process (Sørensen and Jensen, 2012). The existing literature does not say how such innovation actually occurs and

how service encounters and front-line employees become successfully involved in service innovation processes (Alam, 2006). This article is an attempt to fill this knowledge-gap.

While the importance of service encounters for user-driven innovation seems an intuitively logical consequence of how services are produced, delivered and consumed (Eiglier and Langeard, 1987), case studies we have made of service organisations provide little evidence that service encounters always support user-driven innovation. On the contrary, the studies suggest that there are as many unsuccessful cases as there are successful ones. But the cases also illustrate how service encounters have a potential for supporting various types of innovation processes which can lead to different service innovations. Nevertheless, many service organisations are not capable of utilising this potential. Both users and the nature of service encounters have an important role to play in determining this potential. However, in this article, we argue that exploitation of the potential for service encounter-based innovation is conditioned, first of all, by a number of organisational conditions. In particular, we focus on organisational conditions that are relevant in the initial idea-generating phase of the innovation process; those that must be in place in order to 'ignite' service encounter-based innovation. A cross case synthesis of a multiple case study of 11 Scandinavian service organisations provides the basis for developing a model of the conditions for service encounter-based innovation. In this way the article provides an important contribution to the literature dealing with user-driven innovation.

We begin with a theoretical discussion of the characteristics of different service encounter-based innovation processes and how organisational features may facilitate such processes. This leads us to a general model of organisational conditions for service

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encounter-based innovation. Following the methodological considerations the model is further developed and detailed on the basis of the multiple case study. In the final section, the conclusions and the implications of the study are summarised.

2. Theoretical framework

2.1. Service encounter-based innovation processes

Various types of innovation processes have been observed in service organisations. These involve different actors, have different trajectories (Sundbo, 2010), and lead to different types of innovations (Orfila-Sintes and Mattsson, 2009). Based on these observations, several categorisations of service innovations have been suggested (e.g. Gadrey and Gallouj, 1998; Toivonen and Tuominen, 2009; Fuglsang and Sørensen, 2011). Some of these have – implicitly or explicitly – dealt with innovation in relation to service encounters, including, for example, ad hoc innovation, defined as a solution to a particular problem posed by a given user (e.g. Gallouj and Weinstein, 1997; Gadrey and Gallouj, 1998). Ad hoc innovation has typically concerned innovation in knowledge intensive services (KIBS) such as consultancy or financial services. Such KIBS studies focussing on exchange of knowledge with clients show that this is a crucial part of the firms' business activities (Toivonen, 2004; Muller and Doloreux, 2009). The employees' interaction with clients may lead to new knowledge and this can lead to innovations. Landry et al. (2012) found that the more professional and R&D oriented the KIBS employees are, the more is the knowledge codified and thus possible to generalise as a comprehensive innovation. Nicolaisen and Scupola (2011), however, found in a KIBS case study that employees may miss important client insight and thus innovation opportunities because they do not really understand the clients' total business, but only a limited part of it related to the employees' special field.

However, a comprehensive understanding of different types of service encounter-based innovation processes, and one which include also more 'manual services', has not been established. Consequently, we propose a simple categorisation of service encounter-based innovation processes. We base the categorisation on two different, broad, theoretical approaches to innovation in services: (1) a top-down push approach that finds service innovation similar to traditional innovation in manufacturing and (2) a bottom-up pull approach that emphasises aspects of service innovation which are more specific to services and which do not necessarily fit conventional perceptions and definitions of industrial innovation.

We term the first category of service encounter-based innovation *directed innovation*, which can be defined as a planned and well-structured top-down innovation process. It resembles the processes that we also find in more traditional industrial sectors and the structured processes of Stage Gate Models (Cooper and Edget, 1999) and New Service Development (NSD) processes (Edvardsson et al., 2006). It corresponds to *intentional innovations* (cf. Toivonen and Tuominen, 2009) which involve processes that are initiated and developed by organisations' management, marketing and/or R&D departments. They are normally based on strategic concerns. However, in directed innovation new ideas for innovations arise as a consequence of service encounters, this happens, for example, because users ask for new or improved services and/or employees detect a new demand or identify a new potential for a service. Nevertheless, we term the innovation process *directed* because only managers in back-offices have the resources to develop an idea, test it, and implement it through a more or less structured innovation process. Often the firm strategy sets the criteria for deciding whether to develop the idea or not (Sundbo, 2001). The innovation

process and its results fit well with established definitional requirements of innovation, that is it involves intentional and significant changes of a service that can be repeated and have an economic impact.

However, it has been found that innovation in services is not generally as well structured as in other sectors. Thus a number of studies have emphasised the particularities of innovations, innovation processes and organisation of innovation in services (Gallouj and Weinstein, 1997; Gadrey and Gallouj, 1998; Drejer, 2004; Mattsson, 2010). Innovation in services has often been observed to be derived from a bottom-up process in which employees act as corporate entrepreneurs (Sundbo, 1997). The resulting somewhat unstructured nature of innovation has also been identified in relation to service encounters; here its role has been deemed 'fuzzy' (Alam, 2006). Changes in service production and delivery arising from service encounters are not necessarily strategically planned. Rather service encounters may generate many specific solutions to particular customers' problems, which in turn may lead to small scattered changes instead of concrete innovations (Sundbo, 1997).

A recent line of service innovation research has emphasised the importance of *practice-based change processes*, which can be defined as processes related to employees daily practices that result in smaller, unintentional daily changes, or unrepeatable adjustments of a service to users' needs (Fuglsang and Sørensen, 2011). Such practise-based changes, which is our second category of service encounter-based innovation, can also count as a particular type of innovation – or small steps in an innovation process (Fuglsang and Sørensen, 2011; Toivonen et al., 2007). Practice-based change processes include, for example, *Tinkering* (Timmermans and Berg, 1997) and *Bricolage* (Fuglsang and Sørensen, 2011). *Bricolage* can be perceived as a 'do it yourself' problem solving activity that creates structures out of events (Fuglsang, 2010). Services can change in the moment of production because service production and delivery are human performances in which users and employees may act in unforeseen ways (Sundbo, 2010). Thus, service encounters are dynamic and creative meetings in which many unforeseen events can occur; events that must creatively be understood and responded to by front-line employees who by doing so create small practise-based changes. Over time, however, such small changes can accumulate and result in learning, knowledge creation, and more significantly changed services and ways of providing them (Fuglsang and Sørensen, 2011). As opposed to directed innovation, practise based changes arise out of non-intentional, non-systematised processes. At the organisational level, such changes are often only recognised in the 'back mirror' as a posteriori *recognitions of innovation* (Toivonen and Tuominen, 2009).

Whereas changes induced by directed innovation fit well with established and accepted categories of innovations, small daily practise based adjustments of services do not. Innovation, as traditionally defined, only occurs if such scattered small changes are deliberately and systematically repeated with many users and implemented as economically more significant changes. Practise-based changes have, perhaps as a result of these traditional perceptions of innovation, been ignored as an innovative potential in innovation research as well as by most service organisations. Therefore, service organisations do not necessarily detect practise based changes and consequently cannot deliberately develop them further and reproduce them as innovations. This indicates the existence of a hidden potential of service encounter-based innovation.

Thus service encounter-based innovation processes range between: (a) disorganised (understood as non-intentional or emergent) practise-based changes dependent on front-line employees' creative problem solving; changes which are often recognised retrospectively; (b) intentionally directed and replicable new procedures and services based on ideas creatively developed in the

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