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**MANAGING SERVICE INNOVATION IN SMALL-MEDIUM SIZED  
ENTERPRISES: A RESOURCE BASED VIEW**

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## **Abstract**

**Title** Managing service innovation in small-medium sized enterprises: a resource based view

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**Keywords** Service Innovation, Small and Medium sized Enterprises, Resource Based View, Innovation Strategy, Bricolage.

**Thesis Purpose** Analyse how small-medium sized enterprises integrate resources in the service innovation process. More specifically, looking into the whole process of new service innovation and how resources are identified, utilized and managed within SMEs

**Methodology** The research design is a case study, in which resources are examined in the service innovation process at the Twenty Four Seven Group. It is a qualitative research, based on in-depth semi-structured interviews.

**Theoretical Framework** The study has a theoretical framework based on previous theories about service innovation within SMEs, resource base view and bricolage. The emphasis is on how resources are identified, utilized and managed when innovating.

**Conclusion** Utilizing current resources to innovate is a useful concept as it sees the weakness for SMEs to learn about the innovation strategy. This research gives an implication for SMEs adopting their innovation strategy, and further integrates to the organizational development strategy.

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## **Table of Content**

<b>1. Introduction</b>	<b>6</b>
1.1 Background	6
1.2 Problem Discussion	7
1.3 Research Question	9
1.4 Purpose	10
1.5 Key Concepts	10
<b>2. Theoretical Frame of Reference</b>	<b>11</b>
2.1 Innovation	11
2.2 Service Innovation	12
2.2.1 Defining Service	13
2.2.2 The Nature of Service Innovation	14
2.3 Service Innovation in Small-Medium Sized Enterprises	16
2.3.1 Defining SMEs	16
2.3.2 The Nature of Service Innovation in SMEs	17
2.4 Resources	19
2.4.1 Resource Based View	19
2.4.2 Bricolage	21
2.4.3 Conceptual Model	23
2.5 Summary	24
<b>3. Method</b>	<b>25</b>
3.1 Overall Research Design and Process	25
3.2 Data Collection	27
3.3 Method for Data Analysis	31
3.4 Reflections of Method Choices	32

<b>4. Presentation of Results</b>	<b>32</b>
4.1 Twenty Four Seven Group	33
4.2 Innovation in Twenty Four Seven Group	35
4.3 ECO Fresh	36
4.4 PT by Fitness24Seven	40
4.5 Fixman	43
<b>5. Analysis and Discussion</b>	<b>46</b>
5.1 Innovation at the Twenty Four Seven Group	47
5.1.1 Idea Generation	50
5.1.2 Resources Identification	54
5.1.3 Leverage and Adjust	57
5.1.4 Define the Process Design	59
5.2 Conceptual Process Model for Service Innovation	60
<b>6. Conclusions and Implications</b>	<b>62</b>
6.1 Conclusions	63
6.2 Implications for Research	63
6.3 Practical Implications	64
List of References	66
Appendix	73
Interview Guide 1	73
Interview Guide 2	73
Interview Guide 3	75
Interview Guide 4	76

## **1. Introduction**

*In this chapter we will present the background and problem discussion to our study and clarify our research question and purpose. We will conclude by summarizing the key concepts connected to our research.*

### **1.1 Background**

The way organizations operate has altered in today's globalized world due to the rapid changing environment and ever intensified competition. The fast-paced external environment forces organizations to modify their business in a new competitive era (Kuratko et al., 2011; Dervitsiotis, 2011). Organizations must continually adjust, adapt and redefine themselves as they can not stay static in terms of fierce competition, shortening development cycles of new technologies and more demanding customer expectations (Smith et al., 2007). Competitive advantages that work today may be ineffective in the near future, and in order to adapt to the changes and remain sustainable in the competitive game, organizations need to create sustainable growth by continuously offering new products or services. The ability to adopt the innovation strategy has become the foundation of competitive advantages (Morris, 2013; Barnett et al., 2011). In order for organizations to innovate effectively, they need to manage their innovation strategy better (Cooper, 2009), as innovations entail identifying ideas and opportunities to create new or improve existing products or services, (Drucker, 2007; Lia et al., 2014) and enables existing advantages to be maintained and new advantages to be created (Morris, 2013).

Adopting an innovation strategy and gaining competitive advantages is not only vital for the development of large sized enterprises, but also to the small and medium sized enterprises (SMEs). In fact, failing to invest in any form of innovation may lower an SME's effective responsiveness to the introduction of new or enhanced products or services by competitors and may lead the firm to miss out on advantages associated with technological leadership and first-mover advantages (Dibrell et al., 2008). For economic sustainability, SMEs are increasingly playing a key role being the engines

of employment (Van Gils, 2005). SMEs play a major role in countries at all levels of economic development, which account for at least 70 percent of the world's production (Moore and Manring, 2009), and has been widely considered to be vital for competitiveness (Caniels and Romijn, 2005). Therefore encouraging innovation in SMEs remains at the heart of policy initiatives for stimulating economic development at local, regional, national and European level (Jones and Tilley, 2003). Yet, despite increasing attention being given to the role of SMEs and innovation there is a gap between what is understood by the general innovation literature and the extant literature on innovation in SMEs (Edwards et al., 2005). Beside this, it is widely recognized that SMEs, in general, have limited resources in the form of time, money and human capital (Van Gils, 2005). More in specific, they lack of the managerial skills and capability in pursuing long-term strategic due to their fire fighting management style. Innovation in SMEs seems to be largely motivated by forces from the external environment, especially from the customers (Hudson-Smith and Smith, 2007). Therefore, most SME managers accept their environment as given to react to its forces rather than leveraging internal capabilities for proactive change, which is an essential driver for service innovation (Trim and Lee, 2008).

## **1.2 Problem Discussion**

Successful new products or services are critical for many companies, since innovation is one important way that companies can adapt to turbulent changes in markets, technology and competitions (Dougherty and Hardy, 1996). There are a lot of large and growing literature on innovations, both regarding specific projects (Cooper, 1983), and the organization as a whole. Scholars have identified some key characteristic, which related to the successful innovation. For example, organizational configuration, culture, middle managers' skills (Kuratko, 2002), and various combinations of these. At present, there are numerous literatures giving us a basic understanding of innovation. However, firms are still struggling to integrate the innovation strategy to the whole organization. Therefore it is make sense of this failure demands closer

observation of the existing innovation literatures, especially the innovation in SMEs' literature.

For the firm, resources and products are two sides of the same coin. Most products require the services of several resources and most resources can be used in several products (Wernerfelt, 1987). Both perspectives on the firm are reflected in the literature on strategic management. There is emerging tendency that scholars are focus on the innovation strategy, which based on the resources and capabilities perspective (Santos and Spring, 2011). Most organizational entrepreneurship is constrained by severe resource scarcity (Baker and Nelson, 2005). The majority of firms establish their business with very limited resources, and with either only a family member or no employees at all to share the workload (Ruef et al., 2003). While some firms in high-growth sectors are able to fund entrepreneurial activities through the venture and public capital markets, such resources are not widely available to new firms (Holtz-Eakin et al., 1994). Even the very small proportion of new firms that experience growth often find it difficult to attract specific human, financial, or other resources when they are needed (Penrose, 1959; Aldrich and von Glinow, 1992), and creating scarcity even within apparently flourishing firms (Baker and Nelson, 2005). Thus, how to reuse the existing resource and capabilities become crucial to the firms.

Penrose (1959) argued that firms possessing very similar material and human resource inputs may offer substantially different sets of services to the market because of differences in their ability to grasp possible uses and combinations of those inputs. As for SMEs, they are not simply the smaller version of their counterparts (Tilley, 2000), and all the characteristics of SMEs imply that they will innovate differently for sustainability's (Moore and Manring, 2000). For example, literature highlight that some disadvantages of SMEs are resource constraints, lack of formalized planning, difficulty to attract finance support, which may prevent them from engaging proactively in the innovation process (Del Brio and Junquera, 2003). However, Penrose (1959) argued that firms possessing very similar material and human resource



inputs may offer substantially different sets of services to the market because of differences in their ability to grasp possible uses and combinations of those inputs.

While scholars understand that service innovation is distinct from new product development (Zomerdijk and Voss, 2011), the differences between services types need to be account for. The literature on service innovation proposes that the development of services has peculiar characteristics (Santos and Spring, 2011). But it is not clear why services are constantly updated and how managers exploit existing strength to develop new offers. In the absence of stable and enduring service offerings as the object of managerial attention, it seems that managers must concern themselves more with the underlying resources and capabilities (Santos and Spring, 2011; Tilley, 2000). Therefore we need to understand the relationship between existing resources and innovation strategy, further take advantages of the resources at hand and minimize the risk of withholding service innovation.

### **1.3 Research Question**

Given the preliminary literature review, we identified theoretical gaps from previous researches. There is little study about how SMEs should adopt resource based view, using whatever at hand to innovate, or more in particular, how to understand the role of resources in life-cycle service innovation process. Penrose's (1959) "research based view" providing an understanding of how new ideas can emerge from, and services can be built on, and reconfiguration companies' resources and capabilities will open up new expansion opportunities (Santos and Spring, 2011). Therefore studying how SMEs adopt the innovation strategy, gather current resources to innovate and further integrate the whole service innovation process became our main focus. Combined our observations and the background of the case company, we proposed the following research question:

*How does small-medium sized enterprises integrate resources in the service innovation process?*

## **1.4 Purpose**

The purpose of this master thesis is to analyse how small-medium sized enterprises integrate resources in the service innovation process. More specifically, looking into the whole process of new service innovation and how resources are identified, utilized and managed in order to establish new business ideas and gain competitive advantages within SMEs. Additionally, previous research suggests service innovation is characterized by less formal process and more ad hoc happening. Therefore we will propose a process model that describe the life-cycle from beginning to end. Due to a case study design, a qualitative research method will be employed. The study aims to investigate and provide detailed empirical data from three cases that will be examined at one organization. This perspective potentially provides an understanding of how SMEs integrate resources in the service innovation process. Additionally, we aim to find some managerial implications for the similar service provider company, or more broadly to SMEs.

## **1.5 Key Concepts**

First we look into the definitions of resources, and try to find the link between resources and innovation. Barney (1991) defines and classifies numerous firm resources into three catalogues that suggest firms to obtain sustained competitive advantages by implementing strategies that exploit their internal strength. The model is applied by analysing the potential of several firm resources for generating sustained competitive advantages. However, Penrose's (1959) classic discussion about the nature of firms' resource environment provides a different and perhaps more useful basis for understanding how entrepreneurs may create value in depleted and penurious environments. In pioneering contribution to the resource-based view of competitive strategy she argues that "Not only can the personnel of a firm render a heterogeneous variety of unique services, but also the material resources of the firm can be used in different ways, which means they can provide different kinds of services" (1959:58), suggesting a link between the utilization of resources and innovative service output.

Besides that, we found that Lévi-Strauss (1967) concept of ‘bricolage’ often described as making do with ‘whatever is at hand’ (Lévi Strauss, 1967; Miner et al., 2001), helped to explain regularities we observed from the case study company embracing new challenges under conditions of tight resource constraints. However the previous theory did not provide a process model of how they accomplish it. Given the understanding of the resourced based view, we look into some other articles, which investigate the relationship between service innovation and existing resources. Santos and Spring’s (2011) research propose a model composed of three stages; emergency, accommodation and consideration. This model describes the process that takes place when providers redeploy their operational resources to implement emerging service ideas.

## **2. Theoretical Frame of References**

*In this chapter we will present our theoretical frame of references within the context of our study. We take our starting point in the concept of innovation and service innovation and then justify service innovation in small-medium sized enterprises. We conclude this chapter by discussing resources, with focus on the resource base view, bricolage and the conceptual model.*

### **2.1 Innovation**

Every competing organization needs to adapt to changes on the market as the competitors make improvements on their products and services. However, it is far better to be the source of change than adapting to changes introduced by others. Innovation is the cause of market leadership, increased profitability and sustainable competitive advantages. It enables existing advantages to be maintained and new advantages to be created (Morris, 2013; Kuratko et al., 2011; Schilling, 2013). Innovation means to renew and make something new, or introduce something new into existence order of things. The concept of innovation was formulated 1912 by Schumpeter as a creative destruction, able to develop new and better productive combinations with the consequent abandonment of old and obsolete products and

services (Souza and Bruno-Faria, 2013; Schilling, 2013). Corporate performance is determined by continuous innovation, in terms of products and services, and the ability to compete proactively in the market (Kuratko et al., 2011).

There are different types of innovation that an organization can make use of. Continuous or incremental innovation is the most common one and involves activities that enable an organization to match the progress made by the competitors and sustain the position on the market by making small adjustments to the current products or services. Performances of an existing product or service are enhanced, new features are added or new applications are developed. Breakthrough or discontinuous innovation on the other hand involves activities that seek to make products and services dramatically different and better to establish new standards. It usually results in products or services that solve a need that has not been solved before, or that change the way customers solve a need. Breakthrough innovations rarely emerge in the daily work and require more effort and resources in identifying them (Kuratko et al., 2011; Morris, 2013). Dynamically continuous innovation involves activities for a dramatic improvement over the existing state-of-the-art solution. It is not as disruptive to a buyer as breakthrough innovation. Finally, Imitation is used when copying, adapting or mimicking the innovations from others on the market (Kuratko et al., 2011).

## **2.2 Service Innovation**

The rise of service sector has increase scholars' interests in service innovation since the 1980s. While the identification of service innovation is problematic, this is remarkable since many researches have emerged, which emphasize distinctive features of service innovation. However, some of these contributions strain the Schumpeterian innovation opinion or describe in fact the role of service firms in systems of innovation (Flikkema, 2007). In order to give deeper understand of service innovation, we will elaborate it in the following sections.

### **2.2.1 Defining Service**

Any discussion of service innovation must begin with a definition of service, several definitions or classification of services have been offered. Grönroos (1990) defines service as an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions 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. Lovelock (1991:63) defines a service as a “process or performance rather than a thing”. A different approach to defining the concept is suggested by Vargo and Lusch (2004:332). They define services as “the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself”. They argue that this definition is more inclusive and that it captures the fundamental function of all business enterprises.

These definitions have different meanings depending on whether they view them as an objective way of portraying services or as a way of constructing them in terms of value-creation. The terms or concepts used in defining services are also open to different interpretations. It is not clear what they mean by activities, deeds, processes, performance, interactions, experiences and solutions to customer problems. The concept of service is unclear (Edvardsson et al., 2005).

Despite difficulties in defining precisely what a service is, previous literature does reflect on some agreement in terms of both conceptual description and empirical substantiation. However the service concept has always focused on the nature of service performance, activities and processes. The new focus in service research today is not on differences between goods and services, but on differences in how they want to portray value creation with customers, and other stakeholders, where the customer’s perspective is emphasized (Edvardsson et al., 2005).

### **2.2.2 The Nature of Service Innovation**

Service innovation is a broad concept that encompasses a considerable number of distinct dimensions, discussed in the literature by several scholars, such as De Jong and Vermeulen (2003) and Edvardsson and Olsson (1996). Specific examples of innovation include the service development processes (Kindström and Kowalkowski, 2009), capability development (Den Hertog et al., 2010; Fischer et al., 2010), organizational adaptation (Neu and Brown, 2008), and culture (Gebauer and Friedli, 2005). Firms aiming to master service innovation and take full advantage of the potential benefits of service innovation must address that wide array of component parts. Yet many of the service innovation frameworks applied in practice focus solely on changes in the firm's view of service or on the processes of service provision (De Jong and Vermeulen, 2003).

Service innovation traditionally has emphasized the development of new service offerings and concepts (Rubalcaba et al., 2012), including how to generate new ideas for service offerings and develop customer-oriented options (De Brentani, 1995). Salunke et al. (2011) emphasize that a service innovation should result, either directly or indirectly, in value understanding new service development and service innovation for both the firm and its customers. Other scholars view innovation as changes in service characteristics (Gallouj and Weinstein, 1997). The unclear concept of service leads various characteristics of service innovation, for example classification and appropriation of novelty in services, the heterogeneity of customer requests and realities, the customers as co-producer and intangibility of the service output. Given the characteristics of service innovation presented above, it is not surprising the process of service innovation is considered as more ad hoc (Flikkema, 2007).

Innovation in services is crucial as it allows for the sustaining of competitive advantage (Miller et al., 2007), diminishes the threat of commoditization (Lyons et al., 2007), helps service companies outperform their peers (Cainelli et al., 2004), creates opportunities to increase the quality and efficiency of the delivery process and

supports the introduction of new service concepts (Van der Aa and Elfring, 2002). The importance of innovation in services is clearly represented by the recently increased academic interest in the topic (Miles, 2006), but it is also accompanied by the calls to bridge the gap between research and practice, namely how to actually manage service innovation (Crevani et al., 2011). Given the previous reading, it is now well understood that service innovation tends for many firms to be a management process. Usually the service innovation process can be defined as the set of activities, actions, tasks, and evaluations that move a project from the idea stage through to launch (Cooper, 1994). It is a process that starts with the generation of ideas, followed by a phase of implementation, which is spurred by necessary coalition to sponsor the idea, develop tests and prototypes and materialized production in the form of a product or service. The process includes formal and/or informal activities that are aimed to create new business ideas through product and process innovations and market developments. This implies that service innovation involves the creativity of individuals, organizational structure, power, communication, resources and financial conditions (Kuratko et al., 2011; Souza and Bruno-Faria, 2013). The new service development process usually does not evolve in a strategically, structured line. There is a certain level of chaos in every successful project. Nonetheless, there are some key steps that are important when innovating a commercially viable new service, these are; idea generation, concept testing, technical feasibility assessment, product testing, financial assessment, test marketing, launch and life cycle management. Key steps are needed to ensure systematic achievement of the management teams intentions. Motivated activities and clearly formulated steps to guide assist in the innovation process (Froehle and Roth, 2007; Kuratko et al., 2011). All these activities requires different kinds of resources, therefore managers need to see the service innovation process from a resource and capacities perspective (Eisenhardt and Martin, 2000). In order to give deeper understand of the resources perspective, we will elaborate it in the following sections.

## **2.3 Service Innovation in Small-Medium Sized Enterprises**

### **2.3.1 Defining SMEs**

Small-medium sized enterprises (SMEs) play a central role in the economy. They are a major source of entrepreneurial skills, innovation and employment. For the purpose of this study the definition of SMEs provided by the European Union has been adopted:

*The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro (European Commission, 2005:5).*

However, although numbers may broadly be used to identify whether a company is a SME or not, we consider that this should be completed by a set of characteristics which enable a better definition of the term SME.

Small and medium enterprises are different from large organizations (Ates and Bititci, 2011). These differences primarily relate to such defining SME characteristics as a reactive, fire-fighting mentality, resource, limitations, informal strategies and flexible structures. As a consequence, they tend to have a failure rate higher than that of large organizations (Edwards et al. 2004). However, it is claimed that SMEs are more efficient at creating quality jobs, are more innovative and growing faster than large enterprises. SMEs are more focused on short-term needs and medium-term survival than on long-term probability or market share. They are more able to adapt to quick changes on the market and more depended on personal relationships between managers, employees and customers. In addition, they are less able to construct and follow a business plan and slow to take advantage of available technology (Hudson et al., 2001).



### **2.3.2 The Nature of Service Innovation in SMEs**

Competitiveness at a company level depends crucially on the speed new services can be brought to the marketplace and new cost-saving can be made. The creation of wealth and employment depends on the speed scientific and technological breakthroughs are converted into practical and attractive solutions. Service innovation within SMEs requires much more than the ability to turn a new idea into a working service. There must be accessible protection for intellectual property, and adequate incentives for entrepreneurial drive. In short, what is needed is a dynamic, self-sustaining culture of innovation. Encouraging innovation in SMEs remains the heart of policy initiatives for stimulating economic development at the local, regional and national level (Edwards et al, 2005; Van Gils, 2005). SMEs organizational behaviour and characteristics are important drivers in the evolution towards service innovation and gaining competitive advantages (Moore and Manring, 2009). From an economic sustainability perspective, SMEs are increasingly playing a key role by being the engines of employment (Van Gils, 2005). SMEs account for at least 70 percent of the world's production (Moore and Manring, 2009). Therefore, are managers encouraging innovation in SMEs in order to stimulate economic development (Jones and Tilley, 2003).

It is widely recognized that SMEs, in general, have limited resources in the form of time, money and human capital (Van Gils, 2005). They are overloaded with short-term cash and payment problems (Wesson and De Figueiredo, 2001). In particular, they lack the managerial skills and capability in pursuing long-term strategic due to their fire fighting management style. Innovation in SMEs seems to be largely motivated by forces from the external environment, especially from the customers (Hudson-Smith and Smith, 2007). Therefore, most SME managers accept their environment as given to react to its forces rather than leveraging internal capabilities for proactive change, which is an essential driver for service innovation (Trim and Lee, 2008).

Most of the SMEs reflect the personality of their founder (Atkinson and Hurstfield, 2003), who typically employs a directive form of management within a flat hierarchical structure, personally determining decisions, recruitment, working practices and culture of the firm, as well as controlling financial resources and business decisions. Consequently, the interest, knowledge and enthusiasm of the founder tend to drive SME innovation strategy (Peppard and Ward, 1999). Therefore should SMEs managers see this as both an opportunity and risk, take advantages of the beneficial part and minimize the risks.

In most of the SMEs, managers are usually the owners or founders of the company. Hence, the control is primarily within one or a few people with a high level of autonomy (Pansiri and Temtime, 2008). Organizational success or failure in SMEs is severely affected by the managerial skills of the owner-manager. In fact, decisions are mainly based on the director's personal skills and intuitions rather than on systematic analysis of information. The owner-manager usually adopts a highly personalized management style, tending to follow a 'react and adapt' philosophy and fire fighting strategies, focusing on short term profits and not engaging actual long-term strategic planning and innovation strategy (Hudsonet et al., 2001). Improvements are often incremental and there is a preference to adjust processes and systems in response to specific identified needs and to learning-by-doing approaches (Garengo et al., 2005). Refer to performance measurement, SMEs are still relying mainly on accounting information and financial measurement (Carpinetti et al., 2008). Focus on technical aspects and large span of innovation usually leads SMEs to a misinterpretation about performance measurement, often considered as a wasting-time and cash-burn activity (Garengo et al., 2005).

From an internal point of view, all the scholars also highlight scarcity of resources as one of the main obstacles and typical characteristics of SMEs (Singh et al., 2008). The term 'resources' is considered both in terms of personnel, including also managerial skills, and financial stability and security. Additionally, certain professional working skills are limited, not only among the regular employees (Singh et al., 2008) but also

owners and managers. They have often not enough managerial expertise or organizational capabilities, which further implicates poor strategic business planning and service innovation management (Pansiri and Temtime, 2008). Even though size represents a shortage in terms of available resources, on the other hand, it sustains a flat organizational structure with lack of bureaucracy and this has a positive impact on flexibility, adaptability and rapidity in responding to the service innovation (Garengo et al., 2005). For this reason SMEs have usually a high potential for innovation and the ability to satisfy customers' emerging and evolving requirements. Furthermore, a structure with few management layers supports face-to-face relations, simplifying communication processes and offering to the manager high visibility on the processes and the opportunity to directly influence employees (Singh et al., 2008).

Compared with large firms, SMEs face additional pressure in transforming ideas into services because of their limited resources and capabilities in distribution, and marketing. SMEs also have a typically strong focus on their core business and a specialized knowledge base, they tend to create a cognitive boundary or a reference frame by which to impede the identification of new alternative courses of action (Vossen, 1998).

## **2.4 Resources**

### **2.4.1 Resource Based View**

In order to gain better understanding of the resource based view, it is needed to discuss the definitions of resources. Firm resources include all assets, capabilities, organizational processes, firm attributions, information, knowledge, which are controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991). There are various firm resources that may enable firms to conceive of and implement strategies. For the purpose of discussion, Barney (1991) suggests to classify these numerous possible firm resources into three categories; physical capital resources, human capital resources, and organizational capital resources. Physical capital resources include the

tangible assets used in a firm, for example, a firm's store, plant, equipment and its geographic locations. Human capital resources include the training, experience, judgment, intelligence, relationships, and insight of individual managers and employees in a firm. Organizational capital resources include a firm's formal structure, its formal and informal planning, controlling and coordinate systems (Barney, 1991).

However the research based view usually does not consist all the resources processed by a company, but rather focus on strategic resources, for example, those that are the basis of the company's sustainable competitive advantages (Rangone, 1999). In order to identify such resources, Barney (1991) propose five important capacities that companies need to adopt. First is competitive superiority which evaluate to what extent the resources contributes to differentiating the company from its competitors. Second is imitability which analysis the competitors' difficulties in imitating the resource. Third is duration, which measures if the resource's benefits will also be generate, in long term. Fourth is appropriability, which verifies if the company owning the resource is able to exploit the generated advantages in the market. Last one is substitutability, which assesses how difficult it is to for competitors to replace the resource with alternatives that gives the same advantages.

Starting from these basic concepts, we are able to explore further the nature of resources, and find out how entrepreneurs are taking advantages of the resources to innovate. Penrose (1959) first raised the discussion of the nature of firms' resources environment provides a different and perhaps more useful basis for understanding how entrepreneurs may create value in depleted and penurious environments. She argues that firms possessing very similar material and human resource inputs may offer substantially different sets of services to the market because of differences in their ability to grasp possible uses and combinations of those inputs. For the firm, resources and products are two sides of the same coin. Most products require the services of several resources and most resources can be used in several products (Wernerfelt, 1987). By specifying the firm's activity in different markets, it is possible

to infer the minimum necessary resource commitments. Conversely, by specifying a resource profile for a firm, it is possible to find the optimal market activities. Baker (2005) summarized the research, and found that the argument leads to three characterizations of resources environment that are useful for understanding how entrepreneurs may construct resources from nothing (Baker, 2005). First, his argument implies that each firm is unique in its idiosyncratic relations to its resource environment, this highlights the limitations of understanding a resource environment as independent of the activities of firms embedded in it. Second, the argument leads us to expect substantial differences among firms in their ability to survive given similar resource constraints. Different firms will discover different services and combinations of services from similar resources. Third, at the extreme, his argument suggests the possibility that the same resources may be worthless to one firm but valuable to another, especially to the extent that latter firm can combine what was valueless with its own unique set of other resource and services. Together, these three characterizations of firms' resources environment provide a promising basis for understanding how entrepreneurs might leverage valuable resources combinations from what appear to be highly constrained environments (Baker, 2005). Penrose (1959) in her pioneering contribution to the resource based view of competitive strategy, provides a clear new perspective of looking into the link between the utilization of resources and innovative service output. However, she did not provide a model of how firms come to construct their unique and idiosyncratic resource environments. Similarly, work from the resource based view also emphasizes the centrality of unique input resource combinations (Conner, 1991) but downplays the role of discretion and choice (Barney, 1986; Mosakowski, 2002).

#### **2.4.2 Bricolage**

More promising for understanding how entrepreneurial firms sometimes persist or even thrive in apparently constrained environments is Lévi-Strauss (1967) concept of 'bricolage'. The concept refers to 'making do with what is at hand', and is often described as making do with 'whatever is at hand'. The concept assists in

understanding the behaviour of creating something from nothing by exploiting physical, social, or institutional inputs that other firms rejected or ignored. Successful bricolage behaviours may contribute in the development of firms that are better able to manage market uncertainties, survive and perhaps even flourish despite resource constraints (Senyard et al., 2009). Entrepreneurs often attempt to overcome resource constraints by engaging in resource seeking behaviours, they for example tend to engage in finding new investments, which consumes numerous times and can not guarantee the result (Senyard et al., 2009).

Baker et al. (2005) briefly explicate the three elements of bricolage definition. First, 'Making do', it implies a bias toward action and active engagement with problems or opportunities rather than lingering over questions of whether a workable outcome can be created from what is at hand. In a related manner it implies a refusal to enact resource limitations, which means that firms engaged in bricolage are willing to experiment to find ways to accomplish goals without worrying too much about whether they have the 'right' tools, resources, or skills at hand. Whereas resource constraints might cause many other firms to refrain from attempting new activities, firms engaged in bricolage persist in trying to find ways of addressing new challenges (Senyard et al., 2014).

The second is 'Combination of resources for new purposes'. The process of combining resources for new purposes sometimes serves as a mechanism driving the innovations in the form of new services from existing resources. Firms that 'made do' with what was at hand tended to favour recombining existing elements rather than fabricating them from scratch. Firms engaged in bricolage frequently find value in inputs that other firms view as worthless, which can be particularly useful when operating under substantial resource constraints (Senyard et al., 2014).

Thirdly, "The resources at hand", refers to a firm's resources and capabilities include all of the financial, physical human, and organizational assets used to develop, manufacture, and deliver products or services to its customers. Bricolage is not simply

about conserving resources and making do through the reuse of old and worn resources for their original purposes, but is fundamentally about creative recombination of resources toward purposes for which they were not originally intended (Senyard et al., 2014). Baker et al. (2005) argues to include resources that are available very cheaply or for free, often because others judge them to be useless or substandard. Together these definitions explain how the use of bricolage enables some firms to emerge new solutions, it suggests tight connection between bricolage and innovation.

### **2.4.3 Conceptual Model**

Given this context, we bring the ideas from resources literature into the service innovation field. Exploring the relationship between service innovation and their underlying resources may be a way to understand service innovation further. Previous research also suggest the service innovation in SMEs is characterized by less stable offering, less formal processes and is more ad hoc (Singh et al., 2008). In face of these issues, it seems managers must concern themselves more with the management of the underlying existing resources. In the meantime, there is no model describe a life-cycle process of change. Hence, we reached the model of Santos and Spring (2012) who presents a service innovation process composed three stages: emergence, accommodation and consolidation (Santos and Spring, 2011).

The ‘Emergency stage’ starts when the prospective service is identified. The idea is sketchy, and may be predominantly market segment driven or resource driven. Firms consider in their investment decision if, and how, existing operational resources, capabilities and capacity enable them to provide the new service. The decision to invest in the service leads to the accommodation stage (Santos and Spring, 2011).

The ‘Accommodation stage’ follows in which the implementation of the service will reveal what it is realistic to take on inside the firm, both in terms of newness of capabilities, and the capacity of the operation to find time to do new things. Working to try to develop the new service will also course intensive changes in operations

resources, capability and capacity level. It may reveal hidden more generally-applicable resources that are already deployed in existing services; new capabilities will start to develop; capacity trade-offs will appear as effort directed toward new services, possibly at the expense of existing ones (Santos and Spring, 2011).

Finally, 'Consolidation stage' occurs, which is reached when companies have a better understanding of the new service and can define its process design, for example, costs, capacity demands and job descriptions. In addition, process design decisions can fine-tune operations resources and capacities. For example, opportunities may emerge for continuous improvements or for economies of scale between the services. Operations resources and capabilities are then carried forward into the subsequent service innovation effects (Santos and Spring, 2011).

In this conceptual model, the actions and decisions required for the implementation of a new service would cause operations resources and capabilities to change during the accommodation stage. Then, in the consolidation stage, there is a fine-tuning between the requirements of the new and the existing services and companies become used to the reconfigured operations resource and capabilities base (Santos and Spring, 2011). They further suggest that the three steps model of emergency, accommodation and consolidation should not be the one to follow if companies want to plan for the development of a new service. Rather, it portrays the process that takes place when service providers redeploy their operations resources and capabilities to implement a service idea they were presented with (Santos and Spring, 2011).

## **2.6 Summary**

Due to the increasing contribution of SMEs to the economy, there is a growing tendency to create sustainable SME (Ates and Bititci, 2011). The way of obtaining sustainable competitive advantages is through strategic innovation. However, most organizational entrepreneurship is constrained by severe resource scarcity (Baker and Nelson, 2005). Thus, we focus on the literature regarding the resources based view.



The resource based view asserts that firms gain and sustain competitive advantages by deploying valuable resources and capabilities that are inelastic in supply (Wernerfelt, 1984; Barney, 1991). Lévi-Strauss (1967) concept of ‘bricolage’ provide a promising understanding of how entrepreneurial firms sometimes persist or even thrive in apparently constrained environments is. Santos and Spring (2011) propose a conceptual model, which composed three stages: emergence, accommodation and consolidation. This model describes the process that takes place when companies re-deploy their resources and capabilities to implement emerging services ideas. However this model does not include the phase of idea generation, and potentially use resources identification to generate ideas. This shows how company should follow if they want to plan for the development of a new service, from the beginning to the end. Given the preliminary literature review, we will conduct qualitative research in a case company, examine the findings, and propose our model based on the previous reading.

### **3. Method**

*In this chapter we will present how we proceeded to collect our empirical data at the case company. Firstly, we present our overall process and motivate our research design. We justify our choice of methods and highlight the opportunities and possible shortcomings the method entailed. Finally, we discuss the method of analysis in which we clarify how we analysed our empirical data in relation to our theoretical frame of references.*

#### **3.1 Overall Research Design and Process**

All research is based on a view of the world and there are different kinds of epistemological theories dealing with the issues about the nature of knowledge, objects and sources. Knowing the epistemological assumptions, the researcher can increase the validity of the results and thus ensure that the knowledge generated in the study is cumulative. The three main epistemological positions are positivism, interpretivism and constructionism. The difference is that positivism seeks to explain

reality, while interpretivism tries to understand it, and constructivism focuses on constructing it (Saunders et al., 2007). Interpretivism is according to Bryman and Bell (2011) a view of reality that is based on understanding and interpretation, usually of social action. Based on our research question and the purpose of our thesis, we will follow interpretivism as an approach in this paper.

This study investigates the relationship between existing in-house resources and service innovation in SMEs by using relevant literature combined with a case study at the Twenty Four Seven Group. We had the opportunity to have a five months internship at the head office in Lund where we got deep insights into the organization. The research process was not linear in nature but cyclical in which we switched between different steps in order to validate and understand the phenomenon better. A case study design was chosen since it facilitates an in-depth study of a single entity and provides the opportunity to understand the complexity of a business situation (Eisenhardt, 1989; Bryman and Bell, 2011). We chose to examine three cases at the Twenty Four Seven Group that were relevant to our study and assisted us in understanding the phenomenon of our research question. They were ECO Fresh, PT by F24S and Fixman, which are new service subsidiaries that the organization established during the past two years. The three cases were chosen due to their relevance to the study and their rich amount of data about the service innovation process. They have both similarities and differences, which gave us a rich variation. The other subsidiaries were not relevant due to their lack of data and contribution to the study. The three cases were elected by a non-probability sampling technique where they were not selected on a random basis but were carefully chosen by us (Eisenhardt, 1989).

The framework of building theory out of case study suggested by Eisenhardt (1989) was developed in the research process, and a qualitative method was used as the research tool to gather and analyse data. Qualitative method is often considered a method of choice for case study design and several qualitative methods can be combined to study the given phenomenon. We agreed to use a qualitative method as

the research tool to gather and analyse data. A qualitative approach is appropriate when the aim is to gain understanding of a complex phenomenon, its nature, characteristics, variations and deviations. Before starting the data collection, we reflected over our role as researchers and agreed to interact and gather data by ourselves and interpret the data within the framework of our research area (Bryman and Bell, 2011; Saunders, 2007).

Given the academic focus of this research paper, extensive secondary and primary research was conducted to ensure factual accuracy and theoretical reliability (Bryman and Bell, 2011). A literature reviews based on academic journals and books was chosen for the secondary research. The literature was reviewed systematically and screened for its contextual connectivity, factual support and its respective methodology approach. The theoretical framework for the research was built upon existing academic literature (Eisenhardt, 1989). In order to gather background information about the organization, and details regarding the cases, both formal meetings and informal discussion were carried out with various managers and employees at the head office. We conducted thereafter semi-structured interviews to gather more specific information regarding the need for resources in the innovation process. The primary data collection consisted of in-detail interviews with well-informed individuals obtaining information that provided a greater insight into the process and outcome of our study. The collection and analysis of the data was an iterative process, in which we switched between collecting and analysing during its life cycle. It assisted us in confronting the research question. The empirical findings were compared to the theoretical framework in order to state our conclusions and generate new theory (Bryman and Bell, 2011; Saunders, 2007).

### **3.2 Data Collection**

Data collection is the process of obtaining relevant information needed to analyse the relationship between constructs of the research question. We developed a data collection plan to formalize the data gathering process and to ensure that relevant data

within a reasonable amount of time was captured. A cyclical research process was followed with continuous theoretical reviews, data gathering and data analysis (Bryman, & Bell, 2011).

We initially started the data collection process with exploratory interviews and meetings with managers and employees at the Twenty Four Seven Group to get an understanding of the subject and the three cases. Information gained from these interviews in combination with related literature and our initial research question helped us construct follow up questions, find new sources of information and develop an interview guide (Bryman, & Bell, 2011). The questions within the interview guide were in this way more targeted towards issues developed during our work. We agreed to conduct face-to-face semi-structured interviews at the head office as they ensure that the respondent answers questions in each area of interest, while the flexibility is maintained to follow-up on interesting findings and thus to understand the reason of the response. Interviews provide rich insight into peoples' biographies, experiences, opinions, values, aspirations, attitudes and emotions (Saunders, 2007). As Bryman and Bell (2011) suggest as being commonly used in qualitative case study, a purposive sampling was elected as a non-probability sampling technique where the participants were not selected on a random basis but were carefully chosen by us. The decision regarding what managers to interview was based on their involvement, knowledge and experiences regarding the three cases. They were considered to be most suitable to provide answers to our research question. The technique encourages sampling a variety of sources to generate wider range of data. The main purpose of the interviews was to create an understanding of the new service development process and use of in-house resources in the three cases.

Our first interview was an introduction of the Twenty Four Seven Group where we had the opportunity to get to know the organization and how they operate in-depth. Thereafter, we had interviews with the CEO, Christian Ask, and COO, Magnus Frennmark, about the general innovation process at Twenty Four Seven Group with focus on their use of resources. The CEO is the innovation champion at the

organization while the COO is the strategist. They intricate in all innovation processes at the Twenty Four Seven Group and are therefore involved in our three cases. The interviews assisted us in understanding how they innovate, but also which cases we would select. When ECO Fresh, PT by F24S and Fixman was chosen, we decided to have in-depth interviews with the responsible managers in every case. Since the subject of the research was of scientific nature, which the respondents may not be aware of, indirect questions were formed and natural language was used. It was important for us to not interact when they were having problems with the use of the English language, and let them take their time to formalize their sentences to make sure that their point of view was represented. We were very careful to have an objective relationship to our respondents and did not guide their thoughts and statements during the interviews. All interviews were recorded and transcribed afterwards, in order to return to what was said. Notes were also taken during the interviewing process. Following each interview, we had open discussion sessions among ourselves in order to identify key factors and outcomes (Bryman, & Bell, 2011; Eisenhardt, 1989). A summary of the people interviewed is presented in the following table below.

<b>Object</b>	<b>Name and Position</b>	<b>Date of Interview</b>
Introduction of the Twenty Four Seven Group	Magnus Frennmark, COO and Tony Mohlin, HR Manager	January 13 <sup>th</sup> 2014
The innovation process at the Twenty Four Seven Group	Christian Ask, CEO	March 24 <sup>th</sup> 2014
The innovation process at the Twenty Four Seven Group	Magnus Frennmark, COO	April 1st 2014,
Case, ECO Fresh	Josefin Nilsson, Operation Manager	April 30 <sup>th</sup> 2014

Case, ECO Fresh	Marie Wallbrand, Marketing Manager	April 30 <sup>th</sup> 2014
Case, PT by F24S	Thomas Skoglund, Concept Manager PT by F24S	May 15 <sup>th</sup> 2014
Case, Fixman	Daniel Waldemarsson, Concept Manager Fixman	May 15 <sup>th</sup> 2014

Secondary data can be defined as the data generated through systematic reviews, documentary analysis and as well as the results from large-scale datasets (Bryman, and Bell, 2011). For the purpose of the research, we used organizational documents as source of secondary data. Managers and employees at the head office provided us with all the relevant documents needed to gain perspective on the organization and how they operate. The documents were annual reports and company presentations of each subsidiary. It also contained information on a holistic view of the innovation process. Additionally, we used our ‘Entrepreneurial Health Audit’, as the third secondary data source. It is a systematic approach that examines an organization’s environment for corporate entrepreneurship, which assists managers to identify and create strategies that can positively affect and sustain corporate entrepreneurship activities in an organization (Kuratko et al., 2002). We conducted the Entrepreneurial Health Audit through an online survey at the Twenty Four Seven Group in January 2014 to measure the entrepreneurship at organizational level.

To have good validity and reliability means that the study has quality and high scientific value. Validity refers to what extent the selected data in the study represent the investigated phenomenon and reliability raises the question whether the results of a study will be the same if implemented again or if it is affected by temporary conditions. We consider the validity of our study is acceptable since we have developed theory and previous research in the context of the study area, reached different perspectives and dimensions of the cases and contributed with new

knowledge within the studied area. In addition, we reason that our respondents have been affected by temporary conditions during the interviews, but that the study's reliability is relatively good since we interviewed only relevant respondents within the selected cases (Bryman, and Bell, 2011).

### **3.3 Method for Data Analysis**

The analysis of the data collection was done continuously throughout the development of this study (Bryman, & Bell, 2011). The first step in the analysis process involved getting familiarized with the data. This was done by listening to the tapes and transcribing the interviews. With a clear view of the material, we could highlight the important data and carry out an open discussion sessions among ourselves in order to identify key factors and outcomes (Eisenhardt, 1989).

As the method for data analysis, we followed qualitative method. At first, we started by using within-case analysis with an open coding technique. Open coding is defined as the process of breaking down, examining, comparing, conceptualizing and categorizing each case at a time. This was central to the generation of insight, since it assisted us to cope irrelevant data early in the analysis process. We became intimately familiar with the data and each case as a stand-alone entity. This process allowed the unique patterns of each case to emerge before generalizing patterns across cases. It gave us a rich insights accelerated cross-case comparison (Eisenhardt, 1989).

The second step that followed was a cross-case search for patterns. The data was organized into concepts, which was later grouped into categories based on prior research and theoretical perspectives. We looked for within-case similarities and across-case differences in order to identify important patterns. This method helped us go beyond initial impressions and enhanced the probability to capture the novel findings in the data (Eisenhardt, 1989).

Once the data was sorted, based on categories identified in the theoretical frame of reference chapter, it was compared to the literature to see how the information gathered in the cases was related to the previous theory. The literature gave us deeper

insights in the existing literature and the emergent theory. We went back and forth to the literature and the collected data in order to find similarities and differences in already existing theories. Finally, we systematized our analyses from conceptual categories in the conclusion corresponding to the research question of our study (Bryman and Bell, 2011; Eisenhardt, 1989).

### **3.4 Reflection on Method Choices**

Having an internship and open access to the organization, this case study provides a detailed depiction of the situation at the Twenty Four Seven Group. The case study approach was chosen since it was seen as a better fit for the empirical study and the focus of the research question. Using a single company case study however, decreases the ability to generalize the overall conclusions (Saunders, 2007). A similar generalization issue will also arise, due to the choice to use a qualitative analysis. The research will be reflective of the thoughts and opinions of a few key decisions makers, however it will be important to consider that perhaps their reflections will not be representative of all those at the Twenty Four Seven Group. The qualitative approach, compared to the quantitative, can deliver more diverse answers. We argue that the interviews were vital for our analysis and lead to a more objective view, which makes the result more reliable (Bryman, and Bell, 2011). However, the generalizability of the final conclusions in this research might be restricted due to that only one company at one single location was investigated throughout the whole research process. This limitation has been taken into consideration due to the case study has an idiosyncratic characteristics (Eisenhardt, 1989), but in return, empirical evidences are being explored and related to the theory, and giving practical insights on the effectuation and causation literature.

## **4 Presentation of Result**

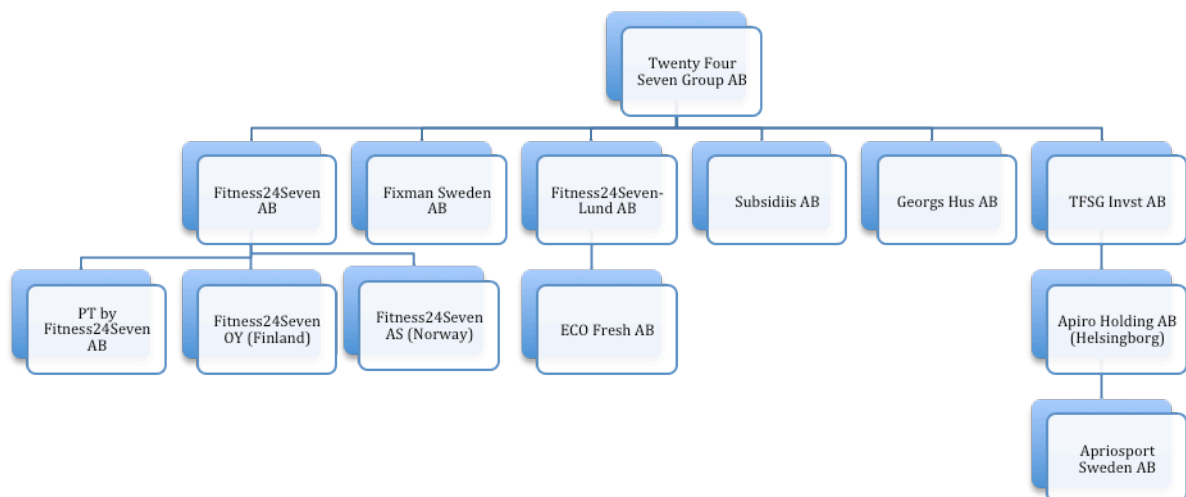
*In this chapter we will present our collected empirical data from the Twenty Four Seven Group and our three cases. We will start by introducing the company and their*



general innovation process. Thereafter we will present each case in-depth as a stand-alone.

#### 4.1 Twenty Four Seven Group

The Twenty Four Seven Group is a holding company for a group of subsidiaries, where the main focus is on wellness within the fitness industry. It is one of the leading fitness management companies in Scandinavia and headquarters located in Lund, Sweden. The Twenty Four Seven Group AB is privately owned by CEO and founder Christian Ask. Figure 1 illustrates the structure of the Twenty Four Seven Groups AB (Årsredovisning TwentyFourSevenGroup AB, 2012-2013).



**Figure 1.** Twenty Four Seven Group AB (Årsredovisning TwentyFourSevenGroup AB, 2012-2013).

Initially in 2002, Christian Ask founded Fitness24Seven AB, a gym corporation. The rapid growth and success of Fitness24Seven, made it possible for the company to expand to Norway (Fitness24Seven AS) in 2010 and Finland (Fitness24Seven OY) in 2011. This contributed to the establishment of the Twenty Four Seven Group in November 2010. Today, Fitness24Seven has over 130 facilities and is expanding to Poland during the coming year (Årsredovisning Fitness24Seven AB, 2012-2013; Årsredovisning Fitness24Seven AS AB, 2012-2013; Årsredovisning Fitness24Seven

OY AB, 2012-2013). Fitness24Seven offers membership to the customers, which allows customer to exercise in Fitness24Seven gyms with or without certain limitations. There are no tangible products being traded, therefore they catalogue it as a service provider company within the fitness sector. Sport and fitness has become a key contemporary industry. Those working within the sector are now expected to demonstrate greater expertise and professional competence than ever before (Oakley, 2008). The key vision is to provide 'Health On Your Own Terms' by offering low-price membership, 24 opening hours a day, providing one access card to all facilities and a women's section in the gym. This is a very unique and advanced concept, which gives the customers high value and at the same time resistance to the competitors on the market. The target group is the regular exerciser who reasons that qualitative training should not cost a fortune. The facilities are located both in central cities and urban regions. By giving these values to customers, Fitness24Seven has a very high customer satisfaction rate, and most of customers are choosing to stay with Fitness24Seven after a one-year contract. Fitness24Seven was elected to 'The Growth Company' of the year in 2008 and has had a steady growth since then and been awarded with 'The Gazelle' by 'Dagens Industri' a multiple times (Företagspresentation Fitness24Seven, 2013). Fitness24Seven is the Twenty Four Seven Group's biggest and most successful subsidiary and contributes to most of the sales turnover (Årsredovisning TwentyFourSevenGroup AB, 2012-2013).

During 2011, the Twenty Four Seven Group founded Subsidiis AB, Georgs Hus AB, TFSG Invest AB and Fixman Sweden AB. Subsidiis operates assets (Årsredovisning Subsidiis AB, 2012-2013), while TFSG Invest conducts investments in other ventures. TFSG Invest entails Apero Holding, that sells training equipment and consultations to other organizations, and AperoSports, that works with five reputable suppliers within the industry. AperoSports is owned 80 percent by the group and 20 percent by Kent Lorentzon Konsult AB (Årsredovisning TFSG Invest AB, 2012-2013; Årsredovisning Apero Holding AB, 2012-2013; Årsredovisning AperoSports Sweden AB, 2012-2013). Georgs Hus is a conference center that the

Twenty Four Seven Group uses for meetings, seminars and training. The center will start to be leased to other organizations during the coming year (Årsredovisning Georgs Hus AB, 2012-2013). Fixman operates construction and cleaning activities of real estates, gyms and vending machines (Årsredovisning Fixman AB, 2012-2013). Fintess24Seven-Lund AB was established in 2012 and entails the headquarters, the head facility and the café ECO Fresh, which was founded in 2013 and is the Twenty Four Seven Group latest investment (Årsredovisning Fitness24Seven Lund AB; Årsredovisning TwentyFourSevenGroup AB, 2012-2013). PT by Fitness24Seven was also founded during 2013 and offers personal training under Fitness24Seven (Årsredovisning PT By Fitness24Seven AB, 2012-2013).

#### **4.2 Innovation in Twenty Four Seven Group**

The Twenty Four Seven Group has a strong entrepreneurial culture that seeks new business opportunities. They strive to differentiate their business from other competitors by innovating and offering improved services and products. They tend to place the customers in the center and find better solutions of existing problems which delivery more values to customers. The driver of innovation is the CEO, Christian Ask, together with the management team and the employees. The innovation process is an ad hoc happening in which everyone has the opportunity to discover and develop new business ideas for the organization (Ask, 2014; Frennmark, 2014). The management team believes in ‘learning by doing’ and tend to establish new ideas fast, but often neglect to shape a business concept. The majority at the office are ambitious, industrious to work hard and embrace innovation. The management team considers that an organization can achieve greatness with a good culture where the employees are part of the innovation process (Ask 2014; Frennmark and Mohlin, 2014). Their vision is to identify opportunities and find gaps of problems in existing offerings that can be solved in order to provide better value for the consumer, improve something that is poorly done or wrong, and turn it into a better business. They strongly believe in the first mover advantage, and always strive to be the first to do something different on the market. The management team promotes innovation and is open towards

sourcing for new ideas, developing concepts and investing in new subsidiaries. The focus is on ideas that support the core business, the gym corporation Fitness24Seven. They strive to establish subsidiaries around Fitness24Seven that offers diverse services and products within the fitness industry. In order to enable this, a great deal of effort is put into customer-oriented innovation, in which they analyse trends and consumer behaviours to distinguish what the customer wants and needs. Their strength is that they are good at modifying a complicated concept, to make it basic and easy for the consumer to use and still receive the same amount of value. They consider that not all consumers want to have special effects on the offerings. A core value universal to all of their current businesses is that the consumer is offered a quality service or product for a reasonable price, and that it is suitable for the employees and the internal organization. All subsidiaries that the Twenty Four Seven Group has today were developed with virtually only internal resources. The reason lies in the fact that they wanted to expand the business rapidly by making use of existing in-house knowledge. The subsidiaries were therefore developed based on available resources and support from the Twenty Four Seven Group (Ask, 2014; Frennmark, 2014; Frennmark and Mohlin, 2014).

We will further present the establishment of the subsidiaries ECO Fresh, PT by Fitness24Seven and Fixman, which the Twenty Four Seven Group launched during the past years. After the presentation of the result, we will analyse all the empirical data in the following chapter by compare it to the literature, and present the final outcome.

### **4.3 Eco Fresh**

The first case that we will examine is ECO Fresh, which is an independent project in the Twenty Four Seven Group. It is a salad and smoothie café that aims to provide healthy and eco-friendly food and beverages to the regular customer who prefers to live a healthy life with nutritious food and beverages (Ask, 2014; Frennmark, 2014).

When the Twenty Fours Seven Group moved their headquarters to their current office, they re-opened Fitness24Sevens head-gym in Lund in the same building. The gym is their biggest one and consists of more exercise offerings. When the gym was in place, the management team saw that they had some free space left by the entrance in the facility. A business opportunity was recognized and they started to generate ideas for what the space could be used as. At first they started talking about having it as a private kitchen for the staff, but then realized that it could be used to generate more money to the organization (Nilsson, 2014; Wallbrand, 2014). Christian Ask wanted to sell and offer healthy food, as he felt that it would add value to the core business and have a high profit value to the organization. The decision to offer healthy food was made according to the market demand and trends saying that people prefer to eat healthy, especially when exercising. In addition, Christian realized that the food needed to be eco-friendly due to environmental responsibilities, which is a very important factor for the Twenty Four Seven Group (Ask, 2014; Frennmark, 2014).

At first they wanted to rent out the space to other organization, but felt at no one was a good fit for the Twenty Four Seven Group and Fitness24Seven. That was when they realized that they wanted to do it by themselves. It took two weeks from the time they made the decision until officially opening the café. This was in the beginning of the spring 2013, and they wanted to open before summer since it was the perfect time to offer healthy food. According to Fitness24Sevens measurements, people tend to exercise and stay healthy more during spring. They did not want to waste any time and wait for the autumn. In addition, they had the free space already and did not to put in extra time and cost for it. Even though it was a high risk to invest in the idea, it was not something new for the company. They had opened facilities for Fitness24Seven in the same pace and managed. They did not see the time as an obstacle but an opportunity to grow both on an organizational level and personal (Frennmark, 2014; Nilsson, 2014; Wallbrand, 2014). Marie clarifies that the experience made it possible

for her to push her limits and try to accomplish something totally new (Wallbrand, 2014).

The first thing Christian did was to find out which employees in the in-house organization had working experience with cafés. He gathered COO Magnus Frennmark, Operation Manager Josefin Nilsson and Marketing Manager Marie Wallbrand as the project team. Christian was the champion and gatekeeper and Magnus the strategist, while Josefin was responsible for recruitment and work schedules and Marie for the development of the recipes and marketing. They enlisted help from their family and friends and decided to 'do the best they can' since no one had opened a café before. The decision to not make use of any further external resources was made as they did not have the option to do it since the time was limited. It was not possible for them to find consultants or additional employees during the two weeks that they had (Nilsson, 2014; Wallbrand, 2014). They also consider that it would have been hard to explain to a potential employee from the outside how they work internally. Josefin reasons that a person has to put in a lot of heart and effort into a project like this, and that an outsider would have had a hard time understanding it and getting along with the rapid speed of the process. In addition, it would have been difficult for the project team to explain the project, as they themselves were not sure how it would evolve and end up. They did not have a strategic business plan they could show, clarify or follow (Nilsson, 2014; Wallbrand, 2014).

During their first meeting they discussed what was needed to open it in two weeks. They did not make a strategy for the working process, all of them assisted with different tasks in order to finish the implementation on time. It was never about 'who does this', but 'how do we do things in the best way' (Josefin, 2014). The working process was therefore not linear or formalized. It was a hands-on process, which included a lot of practical work, testing and learning by doing. The good part with having a non-linear process was that they could be more creative, find new ways to work and were forced to do it fast, but still with high quality. If they had more time, they would have developed a strategy to work after, which would have saved them

some money (Ask 2014; Wallbrand, 2014). Josefin considers that the non-linear process was more fun, but next time she would like to settle a business plan before the implementation starts. She believes that the Twenty Four Seven Group needs to find a way to work in the middle, with both a high level of creativity and freedom and a clear strategy to follow (Nilsson, 2014).

The resources they needed in the beginning of the establishment was to get a better understanding of the related legal laws regarding opening and managing a café. A lot of research was put into finding the right information and examining what they needed to do in order to develop a fully functional and legal café. The second step was to determine what they would sell, to whom and why. As stated before, the products needed to be healthy and eco-friendly. The project team, with the lead of Marie, created the recipe for all products by testing how different ingredients work together and what fits the best from a nutritious perspective. All ingredients were ordered to the organization and tried at the office. They wanted to make sure that the ingredients were as local and ecological as possible, and put pressure on their suppliers to deliver the right raw materials. Marie was in charge as she had both working experience and a big interest for healthy food. They ended up creating seven salads, eight juices, nine smoothies, two breakfast options and some additional add-ons. The third and final step during the two weeks of establishment, was building the café in to the facility and gathering the right equipment for the kitchen. The owner of the building helped build it according to the project group's description. Beside the operations affairs, ECO Fresh shared resources from the Twenty Four Seven Group, such as auditing affairs, financial support, marketing resources, office spaces and managerial tools. The Twenty Four Seven Group is actively supporting ECO Fresh as an incubator and financing the project. The first budget for the project wasn't settled until after being on the market for one year (Nilsson, 2014; Wallbrand, 2014).

The first year was set as a trial in which they could examine the café from their and the markets perspective in order to shape the concept before expanding it. They realized some critical issues along with the daily operations during the first year. For

example the position of the food processing station was not practical, the work routines was too long and keep customers waiting and the sales showed that most of the customers were from the outside and not the Fitness24Sevens gym-members (Nilsson, 2014; Wallbrand, 2014). The fundamental is the same today, but the work process in the café is different and was change in order to deliver the product more efficiently. Marie reasons that the problems would have ben avoided if there was a strategic plan to follow during the establishment process (Wallbrand, 2014). They also learned how to do the work good to make money and find internal routines during the trial before growing. The name of the café was also changed from Juice Up to ECO Fresh, as the most popular product is the salads. They wanted to make it clear for the customers what they are offering. The trial process is still ongoing in which they are evaluating the business. When the reach proof of concept they plan to invest in the company, make a strong business model, heir a concept manager and build up a firm internal routine (Ask, 2014; Frennmark, 2014).

#### **4.4 PT by Fitness24Seven**

The second case we examined was PT (Personal Training) by Fitness24Seven. It is an independent subsidiary within the Twenty Four Seven Group that offers personal training service for Fitness24Sevens members but also non-members. PT by Fitness24Seven is aiming to provide customized training sessions to individuals or groups. With the help of personal trainers, customers can get familiar with the equipment quick, learning how to exercise properly and diminish the risk of injuries. Hence, customers obtain a healthy and safe way of exercising while reaching a personal goal, such as weight loss or muscles gain (Skoglund, 2014).

In 2010 Fitness24Seven started to rent out free space in their facilities to private PT companies. Thomas Skoglund saw the business opportunity and decided to create a partnership between Fitness24Seven and his own company 'Träningsbolaget'. He paid a monthly fee and started to offer Fitness24Sevens members' personal training services. 'Träningsbolaget' was at first only located in one facility in Malmö, but as



the business started to grow he covered ten facilities in southern Sweden together with thirteen employed personal trainers. After two years, in 2012, Fitness24Seven got in contact with him and wanted to know more about 'Träningsbolaget', as it was their fastest growing PT collaboration (Skoglund, 2014). Christian Ask saw that there was a trend in the fitness industry saying that PT services was not only something for the 'rich and famous' any longer, but also for the 'Average Joe'. In addition, he saw that Fitness24Sevens members were interested in using PT services, inter alia by 'Träningsbolaget'. Thomas had a meeting with Christian, in which they decided that the Twenty Four Seven Group would take over 'Träningsbolaget' and hire Thomas as the concept managers for the new subsidiary, that changed name to PT by Fitness24Seven (Ask, 2014; Skoglund, 2014). Until 2012, Fitness24Seven focused on establishing their business and opening new facilities in Sweden, Norway and Finland. They did not have the opportunity to establish a PT service within the organization before that, like their competitors did. Fitness24Seven wanted to develop their own PT services as a great adding value to the core business since there was a strong demanding for personal training on the market. However due to the lack of the professional knowledge in personal training, they realized that the corporate with Thomas was a great opportunity. Fitness24Seven already had a big customers base back in 2012, and that was exactly what Thomas was looking for at the moment (Skoglund, 2014; Ask, 2014; Frennmark, 2014).

The first six months as PT by Fitness24Seven was devoted to planning and building a structure for the new subsidiary. Thomas made strategies, which included budgets and key targets to reach. They needed to set routines in-house in order to grow in scale. Together with Christian, they settled a vision and growth direction for the companies first years. Christian was the gatekeeper who set the foundation of the business, which was to offer low price, increase by ten personal trainers per month and gain ten percent profit each month. However, he was not operative in the company. The responsibility was given to Thomas and Magnus Frennmark. The establishment of the business did not entail an investments, the goal was to grow organic. In hindsight,

Thomas considers that it would have been good if they had invested money in the first or second year to build up a good foundation of the internal business before establishing it on the market. The resources needed in the beginning were Thomas salary. The advantage with being part of the Twenty Four Seven Group was that Thomas could make use of in-house expertise and resources. PT by Fitness24Seven was for example able to share the same office space as the organization, receive audit service from the financial department, utilize logistics services and get help from the marketing department with promotion (Skoglund, 2014; Ask, 2014).

After constructing the company the first six months, Thomas started to recruit personal trainers covering whole Sweden. Thomas was the only one working directly with the business and had a hectic period. The cost increased as they started to recruit, do more marketing and provide the personal trainers with cloths and some minor equipment and pay fee for renting the free space at Fintess24Sevens facilities. PT by Fitness24Seven and Fitness24Seven wanted to have a professional relationship between each other, while still keeping the money in-house. It was important for Thomas that the company could stand on their own feet but still be part of the Twenty Four Seven Group. The support from the organization made it possible for the company to develop and Thomas to learn how to manage a bigger corporation. He realized soon that he needed to be multi skilled and specialist within specialists such as structure, law and marketing in order to manage the business. It was a crucial resource that helped him set a certain standard for the employees (Skoglund, 2014).

Until today, PT by Fitness24Seven has grown to having seven employees on a strategic level, four site respondents and 90 personal trainers. The personal is crucial, as it is a service company. They have not managed to recruit ten personal trainers each month, but the goal is still six to ten every month, meaning 100 personal trainers will be employed during this year. They have made some adjustments to the original business plan and strategy due to the growth of the company. They need to focus on bigger goals now and keep structuring it until they reach them. The in-house structure is still very important in order to keep growing in the future. The goal is to be well

established at Fitness24Seven and then enter new markets and offer more services. The focus today is on offering personal training in the gym. The offering is not new to the market. The Twenty Four Seven Group considers that it is an add-on value to the existing core business of Fitness24Seven. The way they distinguish themselves from their competitors is that they offer a low price, more flexibilities in terms of financial arrangements and high professional knowledge (Skoglund, 2014).

The business model for the sales module is unique for PT by Fitness24Seven. Personal trainers are responsible of selling training sessions to the customers while they receive commission of the total sales as their salary. Therefore are the sales skills vital for the personal trainers and to the total turnover of PT by Fitness24Seven. In order to gain more sales, PT by Fitness24Seven will utilize the existing site responsibilities of Fitness24Seven to promote their training sessions, compensating the personal trainers. By utilizing the strong existing resources from Fitness24Seven, PT by Fitness24Seven has the chance to grow together with the core business and to be a great adding of value to the core competence (Skoglund, 2014).

#### **4.5 Fixman**

The third case we examined was Fixman. It is an independent subsidiary within the Twenty Four Seven Group that offers management and maintenance within construction and property management for both other businesses and private house owners (Ask, 2014; Waldemarsson, 2014).

At first, Christian Ask got in contact with other maintenance company to take care of all the objectives in Fitness24Sevens facilities, for example fixing broken windows, leaking pipes and renovating floors and walls. The experience was not as he required and he got frustrated that the service was really bad as they arrived late, did not have proper uniforms, did not finish the job on time, there was no transparency regarding of how the jobs should be done and no efficient supervising organizations. He contacted his family and friends to investigate if they were having the same problems. As they ensured him that they had the same experience, he was determined that he

could organize the job better. Hence, he decided to start his own company and incorporate it in-house within the Twenty Four Seven Group (Ask, 2014; Waldemarsson, 2014).

Fixmans is based on five pillars, which are confidence, punctuality, clarity, transparency and customer satisfaction. The aim is to provide better service than the other maintenance companies on the market by recruiting well trained employees to provide professional service and giving the customers an online platform to review Fixmans' services. Fixman is currently only collaborating with Fitness24Seven and Apiro Sports, but the plan for this year is open the business for other companies who may need maintenance services, as well as to Fitness24Sevens gym competitors. The main goal is to cover all of Sweden, than Finland and North Europe. They will take market share by offering maintenance, assembly and installation within easier construction work, property management and health and wellness facilities. In addition, they will offer easier construction work, service, assembly, installation and electricity and plumbing that do not need required permission to private house owners. Eventually Fixman will grow from an internal service provider to a comprehensive maintenance provider, as a great adding to the existing business (Waldemarsson, 2014).

Fixman is not directly related to the wellness and fitness industry, thus is more connected to the internal operations in-house knowledge and resources. It enhances the operational skills of Fitness24Seven and sustains the newness of all the objectives in facilities. As we presented before, currently Fitness24Seven operates more than 130 gyms and everyday over 100.000 people exercise in the facilities. The maintenance work is therefore crucial for Fitness24Seven, as it not only increases customer satisfactions but also the internal operational efficiency (Ask, 2014; Waldemarsson, 2014; Frennmark, 2014).

Christian Ask initially founded the business in 2011 under the name Fixarbolaget. The business was not established until 2012 when Daniel Waldemarsson was hired to

work fifty percent as the construction manager at Fitness24Seven and fifty percent as managing Fixarbolaget, that changed name to Fixman. As the company was a part of the Twenty Four Seven Group, Fixman made use of existing in-house resources when establishing the business. Fitness24Seven financed the implementation and no budget was developed. With assistance from the organization, Fixman hired three people, bought clothes and tools for the business and utilized two cars from Fitness24Seven. The crucial part was to hire the right personal who knew how to get the job done and had experience with gyms and the fitness industry. Knowing the industry, gave them a better understanding of how the customers use the gym and what is needed in it. It is safe to say that the company would have not survived if it was a stand-alone. The support from the Twenty Four Seven Group made it possible to grow in a slow pace, examine the market, do research and modify the offerings (Waldemarsson, 2014).

As the construction work of Fitness24Seven extended, when a lot of new facilities were opened in Sweden, Norway and Finland, less time was given to develop Fixman during 2012-2013. This implicated that the evolving of Fixman was late one year as no one had time to take care and nurture it. Daniel had very little contact with the employees at that time. He knew that they were working, but not exactly on what and how much the costs were. He referred it as ‘controlled chaos’. In the beginning of 2014, Christian decided to evolve Fixman and ‘make it fly’. The first decision was to make Daniel the concept manager in order to give him more time to work with the business. Daniel took over the first of May 2014 (Waldemarsson, 2014; Ask 2014).

The establishment process from 2011 to May 2014 was not linear. They had no formalized strategy of how to evolve the business and decisions were made after hand. As the Twenty Four Seven Group had focus on Fitness24Seven, no one had time to structure it. This implicates that they were ‘learning by doing’, as they did not think the idea through and develop it according to solid plan. They realized for example during the process that some of the tools they bought were not useful, and needed to buy others in order for the personal to work efficiently. As the organization is growing, Daniel considers that they cannot keep growing in that way. The

innovation process has to have more routine and structure. The gatekeeper during the process was Christian, and is still today. In the beginning of 2014, Magnus made a full extensive research about costs and structured a business plan. A vision was developed together with clear guidelines for the next few years. Even though this settled the basis of the business, Daniel still feels like there are no firm routines in the working process. The company needs to structure itself internally in order to function and deliver the right value externally to the customer. Without a solid internal routine, he considers that the external work will be made poorly and give the company a negative reputation (Waldemarsson, 2014).

Even though the Twenty Four Seven Group has been a very important part of the establishment of the business, Fixman needs to stand on its own feet today. Fitness24Seven has taken advantage of Fixman and has not paid for any service since 2011, the same goes to Fixman who has not paid for the use of Fitness24Sevens marketing and finance department. They will have to start sending bills to each other in order for the both businesses to grow. In addition, Fixman cannot survive on only having two internal customers, they need to expand and cover the external market. As Fixman grows, they will need to put more pressure on the internal departments in the organization and make them provide time to help Fixman with administrative work such as marketing, and not only focus on Fitness24Seven. Daniel considers that there is no problem using these internal resources as long they all are in the same industry. When Fixman starts to expand to other industries, they will need to get expertise within other fields (Waldemarsson, 2014; Frennmark, 2014).

## **5 Analysis and Discussion**

*In this chapter we will analyse our empirical data from the Twenty Four Seven Group and the three cases in relation to our theoretical frame of references in terms of our research question. We will firstly map down the logical process of idea generation, identify the resources, leverage and adjust the concept and define the process design. Based on the findings from the data collection and on insights from the literature, we*

*will propose a conceptual process model of service innovation composed of four stages.*

## **5.1 Innovation at the Twenty Four Seven Group**

The Twenty Four Seven Group has adopted a strong entrepreneurial culture that seeks new business opportunities in order to distinguish themselves from competitors on the market. They strive to differentiate their business by innovating and offering improved services and products. As stated by Morris (2013) it is far better to be the source of change than adapting to changes introduced by others. The Twenty Four Seven Group innovates in order to gain market leadership, increase profitability and sustain their competitive advantages (Kuratko et al., 2011). This enables their existing advantages to be maintained and new advantages to be created.

The Twenty Four Seven Group tend to place the customer in the center in order to find better solutions of existing problems to deliver more value. They strive to not only improve and renew their existing offerings within the group, but also to introduce something new into existing order of things (Souza and Bruno-Faria, 2013; Shilling, 2013). By continuously innovating, they aim to compete proactively on the market (Schilling, 2013; Kuratko et al., 2014). The focus is on ideas that support the core business, the gym corporation Fitness24Seven. They strive to establish subsidiaries around Fitness24Seven that offers diverse services and products within the fitness industry. Even though the management team promotes breakthrough innovation, we reason that all of their innovations and subsidiaries are continuous innovations that involve activities that enable the organization to match the progress made by others to sustain their position on the market. The ideas are new to the organization but not new to the market. We agree that the new subsidiaries offer improved solutions of existing services, which differentiate them from the competitors. The most breakthrough innovation they introduced to the market is Fitness24Seven's business model. They change the industry by offering the lowest price on the market, being open 24 hours a day, giving the members the opportunity

to enter all gyms with only one card and having a special section only for women in the facilities. Fitness24Seven dramatically changed the market and established new standards (Kuratko et al., 2011; Morris, 2013). The Twenty Four Seven Group puts a great deal of effort into customer-oriented innovation, in which they analyse trends and consumer behaviours to distinguish what the customer wants and needs.

*“We consider our company as a customer oriented innovation company. I am good at seeing the customers trends, I know what is coming the next couple years. I am also a good barometer of the customer behaviour... The way I learn about the trends is in my gene. And also I am good at finding the business opportunities, I see some people doing something really bad, I think I can do this so much better” (Christian Ask, 2014)*

As the CEO and driver of innovation in Twenty Four Seven Group, Christian personality represents the entrepreneurial spirit of the company. This is very good sample of how he drives innovation within the company together with the management team and the employees. The management team promotes innovation and is open towards sourcing for new ideas, developing concepts and investing in new subsidiaries. The majority at the office are ambitious, industrious to work hard and embrace innovation. The management team considers that an organization can achieve greatness with a good culture where the employees are part of the innovation process.

The innovation process is an ad hoc happening at the Twenty Four Seven Group in which everyone has the opportunity to discover and develop new business ideas for the organization. However, our empirical data shows that primarily all ideas that the Twenty Four Seven Group has developed were introduced by CEO Christian Ask. Peppard and Ward (1999) argue that the interest, knowledge and enthusiasm of the founder tend to drive SME innovation strategies. The management team believes in ‘learning by doing’ and tend to establish new ideas fast, but often neglect to shape a business concept. The management team at the Twenty Fours Seven Group define the



innovation process as a set of activities, actions, tasks and evaluations that move a project from the idea stage through to launch (Cooper, 1994). The unclear concept of service leads various characteristics of service innovation, for example classification and appropriation of novelty in services, the heterogeneity of customer requests and realities, the customers as co-producer and intangibility of the service output. Given the characteristics of service innovation presented above, it is not surprise the process of service innovation is considered as more ad hoc (Flikkema, 2007). The Twenty Four Seven Group works with hands-on process, which included a lot of practical work, testing and learning by doing. The good part with having a non-linear process is, according to our data, that the project team has the opportunity to be more creative, find new ways to work and is forced to do it fast, but still with high quality. If they had more time to implement the new businesses, they would have developed strategies to work after in order to save money. Josefin considers that the non-linear process was more fun, but next time she would like to settle a business plan before the implementation starts. She believes that the Twenty Four Seven Group needs to find a way to work in the middle, with both a high level of creativity and freedom and a clear strategy to follow (Nilsson, 2014). Froehle and Roth (200) argue that the new service development process usually does not evolve in a strategically, structured line. There is a certain level of chaos in every successful project. Nonetheless, there are some key steps that are important when innovating a commercially viable new service, these are; idea generation, concept testing, technical feasibility assessment, product testing, financial assessment, test marketing, launch and life cycle management. Key steps are needed to ensure systematic achievement of the management teams intentions. Motivated activities and clearly formulated steps to guide assist in the innovation process (Froehle and Roth, 2007; Kuratko et al., 2011). By clearly identifying the process different steps the Twenty Four Seven Group can minimize the ad hoc happenings and create a more formalized process. The process starts with the generation of ideas, followed by a phase of implementation, which is spurred by necessary coalition to sponsor the idea, develop tests and prototypes and materialized production in the form of a product or service. The process includes

formal and/or informal activities that are aimed to create new business ideas through product and process innovations and market developments. This implies that service innovation involves the creativity of individuals, organizational structure, power, communication and financial conditions (Kuratko et al., 2011; Souza and Bruno-Faria, 2013). All activities in the innovation process requires different kinds of resources, therefore we suggest the managers to see the service innovation process from a resource and capacities perspective, and also the development of new services will reconfigure the organizations resources and capabilities (Eisenhardt and Martin, 2000).

### **5.1.1 Idea Generation**

As stated before, the Twenty Four Seven Group puts a great deal of effort into customer-oriented innovation, in which they analyse trends and consumer behaviours to distinguish what the customer wants and needs. They consider themselves as a customer oriented innovation company that place the customers in the center to find better solutions of existing problems which delivery more value. Christian works a lot with analysing industry and market trends and customer behaviour in order to know what is coming the next couple of years. This assists him in finding business opportunities for the Twenty Fours Seven Group.

The vision is to identify opportunities and find gaps of problems in existing offerings that can be solved in order to provide better value for the consumer, improve something that is poorly done or wrong, and turn it into a better business. They strongly believe in the first mover advantage, and always strive to be the first to do something different on the market. The focus is on ideas that support the core business, the gym corporation Fitness24Seven. They strive to establish subsidiaries around Fitness24Seven that offers diverse services and products within the fitness industry. Their strength is that they are good at modifying a complicated concept, to make it basic and easy for the consumer to use and still receive the same amount of value. They consider that not all consumers want to have special effects on the

offerings. Service innovation traditionally has emphasized the development of new service offerings and concepts (Rubalcaba et al., 2012), including how to generate new ideas for service offerings and develop customer-oriented options (De Brentani, 1995). Salunke et al. (2011) emphasize that a service innovation should result, either directly or indirectly, in value understanding new service development and service innovation for both the firm and its customers.

The business idea of ECO Fresh was realized when the management team saw that they had some free space left by the entrance in Fitness24Sevens gym facility in Lund. After generating a couple of different ideas, Christian made the decision to build and open a café in the facility. He wanted to sell and offer healthy food, as he felt that it would add value to the core business and have a high profit value to the organization. The decision to offer healthy food was made according to the market demand and trends saying that people prefer to eat healthy, especially when exercising. In addition, Christian realized that the food needed to be eco-friendly due to environmental responsibilities, which is a very important factor for the Twenty Four Seven Group. In the contrast, current products in the market are usually composed with a lot of sugar or food additives, which are not really good for the body. There is clear gap between what customers really want and how the current products are. Therefore Christian made do whatever he has in hands, give this project a “go” decision.

As for the personal training (PT) business, the Twenty Fours Seven Group realized there was a huge demand of personal trainers in the industry. Christian saw that there was a trend in the fitness industry saying that PT services were not only something for the ‘rich and famous’ any longer, but also for the ‘Average Joe’. In addition, he saw that Fitness24Sevens members were interested in using PT services. He observed that most people who come to the gym and exercise did not know how to train with the machines properly, and it may also increase the risk of injury. In the other hand, there were also some other consumers that were having specific goals with their excise. For example, they want to lose some weight, or gain muscles, or recovery from some

physically disorder. PT services was as mentioned used by wealthy people as they use to be very expensive. Christian decided together with the management team to step into the personal training business and change the industry by offering PT services to a low price for the 'Average Joe'. The competitors were already offering PT services when the Twenty Fours Seven Group entered the market. Their late entrance was due to the fact that they did not have the opportunity to establish a PT service within the organization before as Fitness24Seven was growing. Until 2012, Fitness24Seven focused on establishing their business and opening new facilities in Sweden, Norway and Finland. The Twenty Four Seven Group wanted to develop their own PT services as a great adding value to the core business since there was a strong demanding for personal training on the market.

Fixman's idea started with bad experience of carpenter's work. Fitness24Seven need a lot of maintenance work, from leaking pipe to broken windows. The current carpenters are usually not well trained, they always dress up casually, arriving late, delivery unsatisfied work and there is no clear rules guide them how to get work done. Christian saw that there was a huge gap to improve the work of carpenters. Hence, he decided to start his own company and incorporate it in-house within the Twenty Four Seven Group. All the facilities of Fitness24Seven needed this job to be done, so he established Fixman, which started to take care of the business of Fitness24Sevena and then expend the operation to other organizations which need the maintenance work.

In the idea generation phase, we grasp patterns from all the three cases. The Twenty Four Seven Group has a very close relationship to the consumers' demands. They tend to keep up with consumer's behaviour and constantly look for new opportunities from trends. Innovation in SMEs seems to be largely motivated by forces from the external environment, especially from the customers (Hudson-Smith and Smith, 2007). Therefore, most SME managers accept their environment as given to react to its forces rather than leveraging internal capabilities for proactive change, which is an essential driver for service innovation. Being a service provider company, it is important to keep close to the customers, and understand their need. During the idea

generation phase of Twenty Four Seven group, numerous ideas were proposed, however not all of them were feasible align with the circumstances and existing resources. Therefore the group needs to make sure that the ideas align close to the core business and relatively feasible based on the existing resources. Competitiveness at a company level depends crucially on the speed new services ideas can be brought to the marketplace and new cost-saving can be made. The creation of wealth and employment depends on the speed scientific and technological breakthroughs are converted into practical and attractive solutions (Edwards et al., 2004; Van Gils, 2005).

Service innovation within SMEs requires the ability to recognize opportunities and generate ideas that will turn into successful businesses. There must be accessible protection for intellectual property, and adequate incentives for entrepreneurial drive. In short, what is needed is a dynamic, self-sustaining culture of innovation. Encouraging innovation in SMEs remains the heart of policy initiatives for stimulating economic development at the local, regional and national level. By engaging in an active search for opportunities, alertness to opportunities and prior knowledge of the market, industry, trends and the customers the Twenty Four Seven Group can identify potentially valuable business opportunities (Edwards et al, 2005; Van Gils, 2005).

Atkinson and Hurstfield (2003) argue that most of the SMEs reflect the personality of their founder, who typically employs a directive form of management within a flat hierarchical structure, personally determining decisions, recruitment, working practices and culture of the firm, as well as controlling financial resources and business decisions. We reason that this supports the situation at the Twenty Four Seven Group. Christian has the role as the champion for innovation and works a lot with the idea generation of new business opportunities.

### **5.1.2 Resources Identification**

Resources are crucial to the innovation process, which is constrained by several resource scarcities (Baker and Nelson, 2005). This applies to both large enterprises and small-medium sized. Entrepreneurs in SMEs are often engaged in seeking time-consuming investments to support new projects (Singh et al., 2008). The same situation applies to the Twenty Four Seven Group. They tend for example to recruit new employees until last minute (Frennmark, 2014), and often struggle to find the right person that fits in the culture of the organization and is motivated to work hard to develop the business (Mohlin, 2014).

In this section we will analyse how the Twenty Four Seven group identifies resources. We classified the resources into three categories, physical capital resources, human capital resources, and organizational capital resources. Physical capital resources include the tangible assets used in a firm, for example, a firm's store, plant, equipment and its geographic locations. Human capital resources include the training, experience, judgment, intelligence, relationships, and insight of individual managers and employees in a firm. Organizational capital resources include a firm's formal structure, its formal and informal planning, controlling and coordinate systems (Barney, 1991).

The first resource that was adopted was the physical capital resource. In the ECO Fresh case this meant the space for the café. When the Twenty Four Seven Group moved their headquarters to their current office, they re-opened Fitness24Sevens head-gym in Lund in the same building. When the gym was in place, the management team saw that they had some free space left by the entrance in the facility. A business opportunity was recognized. In the PT by Fitness24Seven case, we can see that the company started to lease out free space in their facilities to private PT companies. This was how the business idea started and later evolved when the Twenty Four Seven Group decided to take over Thomas Skoglunds company 'Träningsbolaget' and hire Thomas as the concept manager.

The second resource that was adopted was the human capital resources. Christian found out which employees in the in-house organization had working experience with cafés and gathered COO Magnus Frennmark, Operation Manager Josefin Nilsson and Marketing Manager Marie Wallbrand as the project team. Christian was the champion and gatekeeper and Magnus the strategist, while Josefin was responsible for recruitment and work schedules and Marie for the development of the recipes and marketing. All of them assisted with different tasks in order to finish the implementation on time. It was never about ‘who does this’, but ‘how do we do things in the best way’. In PT by Fintess24Seven, only Thomas was fully in charge of the establishment of the business with some assistance from Christian and Magnus. The first six months was devoted to planning and building a structure for the new subsidiary. Thomas made strategies, which included budgets and key targets to reach. They needed to set routines in-house in order to grow in scale. Together with Christian, they settled a vision and growth direction for the companies first years. Christian was the gatekeeper who set the foundation of the business, which was to offer low price, increase by ten personal trainers per month and gain ten percent profit each month. However, he was not operative in the company. The responsibility was given to Thomas and Magnus. Fixman was established when Daniel Waldemarsson was hired to work fifty percent as the construction manager at Fitness24Seven and fifty percent as managing Fixman.

The third recourse that was adopted was organizational capital resources. The advantage with being part of the Twenty Four Seven Group was that ECO Fresh, PT by Fitness24Seven and Fixman could make use of in-house expertise and resources. They shared resources from the Twenty Four Seven Group, such as auditing affairs, financial support, marketing resources, office spaces and managerial tools. The Twenty Four Seven Group financed all of the new businesses and is still today actively supporting ECO Fresh as an incubator and financing the project. The first budget for the project was not settled until after being on the market for one year.

Overall, consider the essence of the three cases as service providers, the physical capital resources they needed to start the business was relatively small. Given the credit for strong business of the Twenty Four Seven Group, the new projects were fully supported in terms of capitals, spaces and customers. Needless to say, they were receiving support from other well-established departments like marketing, finance and administrative, which we consider as organizational capital resources. However Van Gils (2005) argues that it is widely recognized that SMEs, in general, have limited resources in the form of time, money and human capital and that they are overloaded with short-term cash and payment problems (Wesson and De Figueiredo, 2001). This does not apply to our case study. All subsidiaries got support from the Twenty Four Group but were however instructed to grow organically. The most significant resources needed to be adopted was the human resource capitals, the recruitment is crucial to the new projects, forming the team is the biggest challenge for all new projects. Especially in ECO Fresh, since the food and beverage business was totally new for the managers. They also consider that it would have been hard to explain to a potential employee from the outside how they work internally. Josefin (2014) reasons that a person has to put in a lot of heart and effort into a project like this, and that an outsider would have had a hard time understanding it and getting along with the rapid speed of the process. In addition, it would have been difficult for the project team to explain the project, as they themselves were not sure how it would evolve and end up. They did not have a strategic business plan they could show, clarify or follow. Singh et al (2008) argues that certain professional working skills are limited, not only among the regular employees but also owners and managers. They have often not enough managerial expertise or organizational capabilities, which further implicates poor strategic business planning and service innovation management (Pansiri and Temtime, 2008). Even though size represents a shortage in terms of available resources, on the other hand, it sustains a flat organizational structure with lack of bureaucracy and this has a positive impact on flexibility, adaptability and rapidity in responding to the service innovation, which we can see in the Twenty Four Seven Group. For this reason SMEs have usually a high potential for innovation and the ability to satisfy



customers' emerging and evolving requirements. A core value universal to all of their current businesses is that the consumer is offered a quality service or product for a reasonable price, and that it is suitable for the employees and the internal organization. All subsidiaries that the Twenty Four Seven Group has today were developed with virtually only internal resources. The reason lies in the fact that they wanted to expand the business rapidly by making use of existing in-house knowledge. The subsidiaries were therefore developed based on available resources and support from the Twenty Four Seven Group. Furthermore, a structure with few management layers supports face-to-face relations, simplifying communication processes and offering to the manager high visibility on the processes and the opportunity to directly influence employees (Singh et al., 2008).

### **5.1.3 Leverage and Adjust**

The implementation of the new projects reveals what is needed to take on inside of the company - the newness of capabilities (Santos and Spring, 2011). The process of 'learning by doing' acquires new resources and concepts are being adjusted along the process.

ECO Fresh was built and open after two intense weeks of hard work. This was in the beginning of the spring 2013, and they wanted to open before summer since it was the perfect time to offer healthy food. According to Fitness24Sevens measurements, people tend to exercise and stay healthy more during spring. They did not want to waste any time and wait for the autumn. The first year was set as a trial in which they could examine the café from their and the markets perspective in order to shape the concept before expanding it. They realized some critical issues along with the daily operations during the first year. For example the position of the food processing station was not practical, the work routines was too long and keep customers waiting and the sales showed that most of the customers were from the outside and not the Fitness24Sevens gym-members. The fundamental is the same today, but the work process in the café is different and was change in order to deliver the product more

efficiently. They also learned how to do the work good to make money and find internal routines during the trial before growing. The trial process is still ongoing in which they are evaluating the business. When they reach proof of concept they plan to invest in the company.

In PT by Fitness24Seven, Thomas strived to offer more personalized personal training to customers and tried hard to lift the standard of the personal trainers. Thus, in order to do this he needed to recruit more coordinators to better communicate with the personal trainers in different locations. Another significant change he adopted was to cooperate with the site representatives in Fitness24Sevens facilities, to increase the sales of personal training courses. The reason to utilize this existing resource was since he saw that most of the personal trainers were good at teaching, but lacked sales skills. In the contrast, the site responsibilities were more experienced in sales. Therefore it was a good way to maximize the capability of existing personal, creating a win-win situation for both PT by Fintess24SSSeven and Fitness24Seven.

Fixman concept has been changed fundamentally until recently. It was put at the side for almost a year since the focus from the organization was on expanding Fitness24Seven. In the beginning of 2014, the organization and the top management team decided to invest in Fixman in order to make it fly on the market. Daniel Waldemarsson was chosen to be concept manager and got the task to evolve the company. His recent moves including purchasing CRM tools which increase the operational efficiency and invest in buying more equipment to help get work done.

Overall this phase contains more physical capital investment, which including the investment on store expansion, purchase new equipment and managerial tools. As for the human resources capitals, management team tend to appoint someone to be exclusive with their responsibility, who use to be multifunctional in the company. This can be seen as a significant changes in this stage. Usually it is also a sign of new project has potential to make profit and further to be independent from the organization. In the organizational capital, they tend to learn from the past, strive to

develop formalized work routines and structure to avoid operational confusion, keep employees more organized. Improvements are often incremental and there is a preference to adjust processes and systems in response to specific identified needs and to learning-by-doing approaches (Garengo et al., 2005).

#### **5.1.4 Define the Process Design**

The last stage is reached when company have a better understanding of the new service and can define its process design (Santos and Spring, 2011). For example, activities, costs, capacity, demands and job descriptions.

In ECO Fresh case, the new concept has been launched for one year, all the work routines has been redefined, now they have a clear vision of what to do and how to proceed it. In the meantime, figures from sales and feedback from customers' shows that they are in the right way. However, due to high running cost and small customers stream passing by the shop, they still need to think more about the profit module, and increase the visibility of the new brand. Subsequently, they will be able to run it as an independent company within the organization.

In PT by Fitness24Seven, being a mature business of Fitness24Seven, it has been generate profit since day one. The capability, cost, demand and job description has been defined explicitly. Therefore we consider this stage is completed in PT. Their future challenge includes how to bring PT to the next level, how to become a strong competitor in the market. The PT as incremental innovation has not been facing too much difficulties. However it is still a challenge to follow the pace of mother company, how to grow with Fitness24Seven, which has been grow rapidly in the past few years.

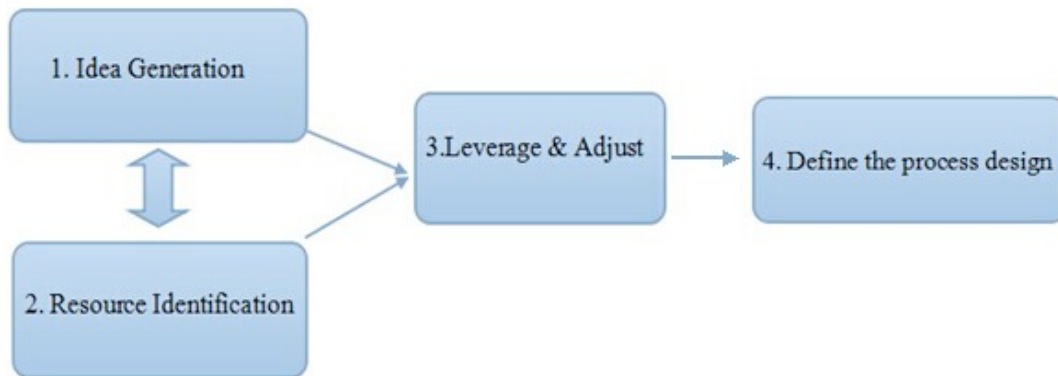
Fixman established two years ago, however it has been run as an internal contractor who is only making business with Fitness24Seven, and never been independently audited in terms of financial affairs. Recently the management team redesigned the concept and made an explicit business plan accordingly, and appointed a new

manager Daniel. His responsibility includes maintain the business and explore it to other sectors, for example, conducting maintenance business for other competitors or private house owner.

Overall the achievement of this stage means they have a explicit business plan, in the meantime the managers adopting a better understanding of new services, they are aware of how to get work done, costs, capacity demand and job descriptions. And the new companies have been integrated with mother company, eventually established an organic structure which supporting each other, extend the core competence of Fitness24Seven. The support from the Twenty Four Seven Group was very vital for all three cases. It made it possible for the companies to develop and position themselves on the market. This differs from Vossens (1998) argument which says that SMEs face pressure in transforming ideas into services because of their limited resources and capabilities in distribution, and marketing. The support from the organization made it possible for the new subsidiaries to establish on the market. However, all subsidiaries need to stand on their own feet in order to make it in long term. The organization cannot keep feeding the other businesses with money from Fitness24Seven, and the organization cannot survive with only one subsidiary that has a high turn over. The other ones need to evolve in order to start bringing in more money to the organization.

## **5.2 Conceptual Process Model for Service Innovation**

Based on the findings from the cases and on the insight from the literature, we propose a model for service innovation composed of four stages: idea generation, resource identification, leverage and adjust, and define the process design. This model describes a life-cycle process of change. We suggest SMEs to stay close to the customers, understand their need and behaviours. The management team needs to be aware of the importance of trends, and follow it closely. In the meantime, they need to adopt a resource based view, understand the concept of bricolage, making use of whatever is at hand and create new combinations of resources to innovate.



*Idea Generation.* This stage suggests that service organizations should focus on consumer behaviour. The new focus in service research today is not on differences between goods and services, but on differences in how they want to portray value creation to customers, where the customer’s perspective is emphasized (Edvardsson et al., 2005). Thus it is crucial to understand what customers really want, provide the service accordingly to this and use it as a useful source to generate ideas. Another great source to generate ideas is industry and market trends. The world is changing rapidly which implies that the trends are changing everyday. Therefore service organizations need to always follow trends and customer behaviour, and utilize it as a source of idea generation.

*Resources Identification.* Resources constraints are one of the major disadvantages of SMEs, which may prevent them from engaging proactively in the innovation process (Del Brio and Junquera, 2003). Therefore we suggest SMEs to adopt a resource base view and the phenomenon of bricolage, using whatever at hand to innovate. It usually start with identifying the existing resources since not all the resources are crucial to innovation, but rather focus on strategic resources, for example, those that are the basis of the company’s sustainable competitive advantages (Rangone, 1999). For example, in Fitness24Seven it will be the huge customer base, larger numbers of sites, the ability of cut the cost and keep it simply, high efficiency in terms of construction,

great understanding of customer's behaviour, and numerous in-house knowledge of how to construct and operate a gym.

The reason we place the first two stages in parallel is because they can stimulate each other, and more often it is a mutual adjustment. For example, they can target the current members to deliver more services, which further generate more profit. Since they have professional in house knowledge of how they to run or construct a gym, they can apply in other organizations or facilities (Christian, 2014). In the meantime, the implementation of new idea needs to identify operational resource before hand. Thus idea generation and resource identification is a mutual adjustment, which may change during the process.

*Leverage and Adjust.* This stage is reached when the trial period of the new project is finished. Usually the firms received some first hand feedback from the customers, and realized some practical issues during the operation. In this stage, it contains further physical capital investment, which could be used for new recruitment or purchasing of equipment. In this stage, another significant change is the specialization of personnel. Before this stage, most of the employees who are involved in the project are usually multifunctional, until then, some key employees become exclusive for the project. This allows them to focus on the new project, maximize the possibility of success.

*Define the Process Design.* This stage is reached when the management team has a better understanding of new project, they are aware of all kinds of activities, cost, capability, demands and job description. Consequently, managers are adopting an explicit business plan, which include tractable profit module, this possible leads the financial independent from the mother company. In the other hand, in order to optimize the structure and save the cost, some financial and administrative department should better integrated with the whole organization. Eventually the new projects are able to develop independently, contributing to the mother company, and extend the core competence of the organization.

## **6 Conclusions and Implications**

*In this final chapter we will justify our conclusions based on our research question and the purpose of the thesis. We will further present implications for the literature and provide suggestions for future research. Finally, we will present practical implications.*

## **6.1 Conclusions**

This research study examines the innovation strategy and life-cycle new service innovation process in small and medium sized enterprises. Investigate how resources plays a critical role in every step of the whole process, from the beginning generate ideas, identify the resource, leverage resource and adjust the concept, to the final define the process design. Based on our findings, we proposed a process model composed of four stages: idea generation, resource identification, leverage and adjust, define the process design. It describes the life-cycle process of service innovation, which service providers can refer to. In the meantime, there are several indications through the analysis of the findings. First, we learned how service firms generate new ideas and identify the operational resources accordingly, reversely, how the resources identification can generate ideas. This broadens the relationship between idea generation and resource identification, gives a very interesting perspective to adopt resource based view. Secondly, we examine the whole new service innovation process and how does the resources play a key role in each stage. That we find some advantages of utilizing internal resources, for example, this not only increase the operational efficiency, but also save the cost. Thirdly, our model add the idea generation phase of Santos and Spring's model, which extend understanding of Santos and Spring's conceptual process model, and also back up the model with new data from case company.

## **6.2 Implications for Research**

In this research study, we conducted a case study as the research design and a qualitative research was employed. We collect our data from three cases, and all of them are from one company. This indicates that the findings in this study are bond to

the case study company. Thus, large scale of quantitative research will be suggested for the further confirmation of our study. Our research covers the whole service innovation process from idea generation, resource identification, leverage and adjust to define the process design, so more in-depth understanding of resource's role in each step will be future research opportunities. Especially in the first two steps, there would be interesting to learn more about the relationship between resources identification and idea generation, and how they influence and compensate each other.

Due to the case study company is a service provider in fitness industry, and service is broad and blurred concept, it has its limitations due to how people define or portray service. Therefore we would suggest to conduct similar research in a different sector, to learn what is the role of resources and how does it effect the service innovation process.

Furthermore, since we conducted the research in a small-medium sized enterprise, the organizational structure is usually compact, and it applies in the human resource. In SMEs, employees are usually multifunctional, they tend to deal with all kind of situations regardless it is their responsibilities, which leads to over working hours and extra pressures. How to adjust the workload, balance the major task and side task can be a intriguing research area.

### **6.3 Practical Implications**

The finding of this research is not only contributing to the resource based view in SMEs, but also have to the practical issues of service innovation in SMEs. Managers can use some conclusions of our model to better foster their service innovation. For instance, this research reinforces the discussion of resource based view in firms, the resources scarcity, which may prevent them from engaging proactively in the innovation process (Del Brio and Junquera, 2003). However, managers perhaps should use the concept of bricolage, whatever at hand to innovate. Most products require the services of several resources and most resources can be used in several products (Wernerfelt, 1987). Thus our model suggests a way to identify the existing



resources, use the superiority of resources to generate ideas. Managers perhaps would combine different resource to create new service, putting in different uses to explore other markets.

In service content, experienced employees are critical to the organization, they tend to be fire fighters who solve problems whenever they occur. Same rules apply in the service innovation process, in the initiative stage of new projects. Employees are usually multifunctional and strive to manage multiple tasks. How to reallocate them in different positions, boost their creativities and motivate them further grow to a team leader is critical for the management team.

Due to the size of the company studied, the few champions in charge of the operations were heavily involved in every strategic decision. Most of the SMEs reflect the personality of their founder (Atkinson and Hurstfield, 2003), hence the control is primarily within one or a few people with a high level of autonomy. This is probably not the case for most of large organizations. However in order to minimize the risk, it is vital to involve more champions in innovation process. Some activities might include giving authority to middle managers, so they can take lead of new projects, or encourage managers to lead cross-functional new service process projects.

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## **Appendix**

### **Interview Guide 1** (Magnus Frennmark and Tony Mohlin)

1. Can you explain the background of the company?
2. Can you introduce the top management team?
3. Can you describe your offerings?
  - B2C, B2B
  - Which is more profitable?
  - Annual turnover/employee turnover
  - Strategies
  - Sales
4. In what way are you different from your competitors?
5. Can you describe your target group?
6. Where are your facilities located, why?
  - What is in them?
7. What are F24S's (internal/external):
  - Advantages?
  - Disadvantages?
8. How do you promote yourself?
9. Brand identity?
10. Key words that define you?
11. Strategy?
12. Evaluation?
13. How is your relationship to the customers?
  - Are they satisfied with the service?
14. How do you learn their demand?
15. Trends?

### **Interview Guide 2** (Christian Ask)

#### Company

1. Why did you start Fitness24Seven?
2. Opportunity?
  - Motivation?
  - Vision?
  - Evolving?
  - Challenges?
3. Change over time?

4. What is your Business Model?
  - What makes it good/game-changing?
5. What is your strategy today, and the future?
  - How do you work with implementing this strategy?
6. What makes you different from your competitors?
  - What do they think of you?

#### Innovation

7. Do you consider yourself as an entrepreneur?
8. Do you consider that you are an innovative company?
  - How come?
  - Risk taking?
  - Products/services that are new to the company or market?
9. Do you have an innovation strategy?
10. Clarify (from idea to implementation)
11. How do you work with it
12. Who is responsible for/drives innovation
13. Do you consider that you respond quickly to trends and changes in the external environment?
14. Why/Why not?
15. Do you consider that you are more innovative than compared to the competitors?
16. Which of your existing products/services is most innovative?
17. How did the recent product and service introductions influence the company over the past few years?

#### ECO Fresh/PT by F24Seven/Fixman

1. Can you explain the process of how you developed the three cases?

#### Identifying the Opportunity:

2. How did you come up with the idea and why?
3. Source of opportunity
4. Vision

#### Defining the Business Concept:

5. Capitalizing the opportunity
6. Reasons why it could be implemented
7. Evaluation

Assessing the Resource Requirements:

8. Nonfinancial needs to assess the development, internal skills
9. Who's involved in the process and in what way?
10. Champion?

Acquiring the Necessary Resources:

11. How the resources were brought together

Implementing and Managing the Concept:

12. Planning?
13. Time?
14. Problems and obstacles?
15. Internal crises?

Harvesting the Venture:

16. Evaluate result?
17. Make changes?
18. Eliminate?
19. What type of service or product innovation are you aiming for in the future?

**Interview Guide 3** (Magnus Frennmark)

ECO Fresh/PT by F24Seven/Fixman

1. Can you explain the process of how you developed the three cases?

Identifying the Opportunity:

2. How did you come up with the idea and why?
3. Source of opportunity
4. Vision

Defining the Business Concept:

5. Capitalizing the opportunity
6. Reasons why it could be implemented
7. Evaluation

Assessing the Resource Requirements:

8. Nonfinancial needs to assess the development, internal skills

9. Who's involved in the process and in what way?
10. Champion?

Acquiring the Necessary Resources:

11. How the resources were brought together

Implementing and Managing the Concept:

12. Planning?
13. Time?
14. Problems and obstacles?
15. Internal crises?

Harvesting the Venture:

16. Evaluate result?
17. Make changes?
18. Eliminate?
19. What type of service or product innovation are you aiming for in the future?

**Interview Guide 4** (Josefin Nilsson, Marie Wallbrand, Thomas Skoglund and Daniel Waldemarsson)

Personal involvement in the project

1. What is your position in the project?
2. What do you work with in the project?

Service innovation process

3. How did you organize the work process?
  - Please define the stages.
4. Did you have a formalized process to proceed the project?
5. Who is the gatekeeper?
  - Were you dependent on the gatekeeper/other colleagues in the project?
6. What was the needed (activities) for the process of the project?
7. How was the project financed?
  - Step by step or budget for the whole project?

## Internal resources

8. How did you leverage all the resources?
  - Make some examples
  - Were there any lack of resources?
9. Were there any external resources needed?
  - Why exclude the external resources?
10. How do you manage to make the best use of your internal resource?
11. What were the advantages and disadvantages with your internal resources?
12. Being a manager of SME, how do you think that has affected your way of using your internal resources?
  - Advantages/disadvantages?
13. Do you think the rapid growth of the core business is affecting the project?
  - Or other new ventures?
  - In what way?