Innovating for Loyalty

- Examining service innovations and brand loyalty through the theory of ambidextrous organisations

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Abstract

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Title: Innovating for Loyalty – Examining service innovations and brand loyalty through the theory of ambidextrous organisations

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Purpose of study: As both innovations and brand loyalty are becoming ever more important for companies today, it is of importance to understand how an organisation can handle the relationship between the explorative and exploitative units when working with these two constructs. The ultimate aim is to understand how service organisations can be managed in order to enhance brand loyalty through service innovations.

Theoretical framework: Previous literature within the area of service innovations and brand loyalty is compiled in order to understand which factors that are of importance to take in consideration when innovating and in order to achieve and build brand loyalty. The theory of ambidextrous organisations is also used to broaden the view of how to work with exploration and exploitation simultaneously.

Method: In order to successfully explore the purpose of this study and answer the proposed research questions, a qualitative single case study on the service company Fritidsresor AB is done. Interviews are used as research method and six (6) respondents from different departments of the company are included in the study through snowball sampling. They contribute to the understanding of the entire innovation process at the case company, which is vital for the investigation of the purpose of the thesis.

Conclusion: To handle seemingly contradicting demands of both working with innovation and brand loyalty, organisations do well to not separate units working with these two activities. A customer-centric approach where involvement from various stakeholders facilitate the dual focus that triggers a number of loyalty drivers. This must however be enabled by a strong top management support, a clear innovation strategy and an organisational structure that allows for continuous exploration and exploitation.

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1. Introduction

Innovation today has become an important strategic tool as many of the biggest companies in the world collectively spend billions of dollars each year on research and development, making it almost inseparable from the company's own reputation (Henard & Dacin, 2010). As an example Apple, currently considered by many as one of the (if not the) most innovative brands existing, reportedly spent a staggering $8 billion on new products and developments in 2015 alone (Statista, 2016). In fact, it has become increasingly difficult to find a firm that does not pay attention to innovation and many companies treat it as one of their cultural values or a pillar in their strategy (Aaker, 2007). At the same time, companies have realised that one of their most valuable assets is their brand, acting as facilitator for customers to choose one product or service over the other, making loyalty towards the brand one of the most fundamental constructs in marketing (Veloutsou, 2015). As both innovation and brand loyalty is deemed vital for companies, this begs the question, how does the development of innovation aid in the creation of brand loyalty? Something this study aims at investigating.

Innovations are commonly used strategically among organisations in order to compete and achieve competitive advantage. Companies try to be more effective in both local and global markets, adapt to changing demands, and create value for their customers (Keupp, Palmié & Gassmann, 2011). Innovations could also lead to several types of growth, depending on strategy and the organisation's objectives. It could for example result in a stronger bottom line, enhanced performance of partnership, increased competitive advantage, more motivated employees and improved customer relationships (Davila, Shelton & Epstein, 2013). More so, in today's competitive marketplace, firms stress the need to differentiate themselves and stand out in the cluster of offerings. By being innovative and creating new and differentiated products, services or processes, firms' try to strengthen their position in the market and reach superior profits (Nijssen, Hillebrand, Vermeulen & Kemp, 2006).

As the previous paragraph reveals, innovation can be several things within an organisation, not just new products. It can mean entirely new business models, new processes to achieve better productivity or a new service offering (Davila, Shelton & Epstein, 2013). Traditionally, product and process innovation have received far more attention in the literature than that of service innovation (Meyera & DeTore, 2001; Raja, Bourne, Goffin, Çakkol & Martinez, 2013). It has been argued to be because of rooted remnants from the industrial revolution where products and productivity were considered of higher importance, together with the

underlying incorrect belief that services lack tangible value (Bitner, Ostrom & Morgan, 2008). This mismatch can be seen as troubling as it has been argued that we are constantly moving towards a more service oriented economy, where innovation plays a vital role (Andersen, 2000; Gallouj, 2002; Gallouj, Weber, Stare & Rubalcaba, 2015).

Despite ambitious undertakings of firms investing in innovation and the many strategic benefits presented above, a majority of all innovations fail within the first three years of their introduction into the marketplace (Wilke & Sorvillo, 2005). Only about five to ten percent of all innovations reach the market and become successful (Furseth & Cuthbertson, 2016). One reason for this failure has been argued to be the lack of consumer focus with regards to innovation. Kunz, Schmitt and Meyer (2011) claim that a consumer-centric perspective is essential in order to ensure that the innovation will be a success when introduced to the market, much since it is the consumers' likeability of the company and its innovation that determines the success.

As a result, researchers have focused on the correlation between the customers' perception of the companies' capability of innovation and customer satisfaction (e.g. Torres-Moraga, Vásquez-Parraga & Zamora-González, 2008; Naveed, Akhtar & Cheema, 2012). This is not surprising as innovation is argued to be a good starting point when it comes to building customer satisfaction (Torres-Moraga, Vásquez-Parraga & Zamora-González, 2008). In fact, one of the main purposes of innovation is to satisfy current customers and reach new, potential ones, while at the same time increasing the market share (Naveed, Akhtar & Cheema, 2012).

Simultaneously, researchers and practitioners alike stress the importance of achieving not only satisfied customers but also loyal customers, given that brand loyalty is a key performance metric in consumer-based brand equity (Aaker, 1996). Loyalty together with innovation becomes important since most markets drift towards commodity status, giving innovation the role of differentiator, shielding firms from price erosion (Aaker, 2007). An innovation is then seen as the creation of a positive customer experience, used as a strategic process in order to generate customer satisfaction and ultimately brand loyalty (Naveed, Akhtar & Cheema, 2012).

The concept of brand loyalty is essentially about creating a situation where a consumer seeks out and prefer one brand over another, despite competitive offerings in price, attributes or

functionality (Palumbo & Herbig, 2000). Loyalty among consumers also offers companies a barrier to entry, the ability to charge price premium, and most importantly, more time to respond to competitors' innovations (Aaker, 1996). Moreover, Tepeci (1999) claim that efforts in creating customers loyal to the brand can lead to long-term cumulative profits and reduced marketing costs. In other words, loyalty is about safeguarding against competitors and creating a breathing space for companies through customer retention.

However, as relevant as loyalty may be, research has shown that not all products are able to generate loyal customers. As such, simple commodity products like detergents experience relatively low customer retention (Palumbo & Herbig, 2000). Instead services, due to its intangible characteristics, are well suited to create loyal customers (McDonald, de Chernatony & Harris, 2001). In fact, not only are services appropriate for creating loyal customers, they are one of the biggest sources of competitive advantage that a service firm possesses (Bharadwaj, Varadarajan & Fahy, 1993). By this regard, attracting and keeping loyal customers is key to survival and growth of any service firm (Lee & Cunningham, 2001).

Importantly, service firms are intrinsically linked to their brand in the absence of tangible evidences such as packaging, labelling or other product-related attributes, making the brand a guiding instrument during the purchase (Javalgi, Martin & Young, 2006). This absence of tangible attributes also gives a brand the role of differentiator as customers have a hard time distinguishing between services (Krystallis & Chrysochou, 2014). Moreover, the lack of physical attributes makes the customer evaluate the brand on a number of dimensions, innovativeness being one of them (Keller, 1993). This means that without the physical product to aid them in the differentiation process, consumers' resort to the brand when assessing the innovation.

The dual focus on innovating for the future to stay competitive, and working with brand loyalty to keep existing customers puts organisations in a predicament. One way to handle current and future demands is for organisations to become what is referred to as ambidextrous (O'Reilly & Tushman, 2004). Markides and Chu (2006, p. 2) define ambidextrous organisations as "companies capable of achieving efficiency in their existing business while at the same time having the strategic foresight to innovate and explore new businesses". This means that ambidextrous organisations are those that manage to find poise between exploration and exploitation, working efficiently between business units (Markides & Chu, 2006). There are however no clear descriptions of how and when organisations should act

ambidextrous (O'Reilly & Tushman, 2013), but as innovation is often a process that incorporates several business units within an organisation (Davila, Shelton & Epstein, 2013), and brand loyalty is argued to be vital for the company's success (Aaker, 1996), using the theory of ambidextrous organisations when looking at these two constructs appear legitimate.

The importance of the two concepts aside, research that links innovation with loyalty is scarce and ambiguous (Pappu & Quester, 2016). Some indicate a direct relationship (Eisingerich & Rubera, 2010) and others indirect connections through factors such as consumer involvement (Henard & Dacin, 2010). Common for this research is that they address innovativeness, i.e. the consumer's perception of the firm's innovation capabilities and the link to brand loyalty. Studies that address the organisation's internal work with innovation and brand loyalty are either quantitative in nature and merely point towards a positive link between the two constructs without further exploration on how this should be done (Xu, Thong & Venkatesh, 2014), focus on the mediating role of innovation adoption type (Lam & Shankar, 2014), or are too industry specific to offer guidance on how the development of a new service can impact separate drivers of loyalty (Konstantinidou, Magoutas & Kitsios, 2015). Furthermore, no previous research has considered the two constructs in the light of the theory on ambidextrous organisations, thus ratifying further inquiries into this research area.

1.1 Purpose of Study

As indicated above, innovations today receive increasing attention as they may provide differentiation and strategic competitive advantage. Despite this, service innovations are still underrepresented in the innovation literature, and furthermore, a majority of all innovations today fail within the first years of its inception, arguably due to lack of consumer focus. At the same time service firms due to the absence of tangible products, intrinsically linked to their brand, are highly suitable for working with brand loyalty. All this, together with the fact that there is an apparent lack of research on internal organisational innovation work for the creation of brand loyalty, help stipulate the purpose of this study which is to investigate how organisations in the service sector work with creating brand loyalty through service innovation. Thus, making it an exploratory research in nature.

1.2 Research Questions

In order to aid the exploration of the purpose of this study, a set of research questions are proposed. As discussed earlier, organisations find themselves in a difficult situation where

they are forced to both focus on innovation to differentiate themselves in order to attract new customers, whilst at the same time working hard to keep already existing customers. The theory of ambidextrous organisations offers a way for companies to work with exploration and exploitation simultaneously but how this should be done is still unclear, especially regarding service innovations and brand loyalty. This is thus the focus of the first research question.

RQ1: How can an organisation handle the relationship between the explorative and exploitative units when working with brand loyalty and service innovations?

Secondly, as service innovation and brand loyalty are two vastly different constructs, there is a need to understand and identify how the former affect the latter in which characteristics of service innovation that appeals to certain drivers of loyalty both theoretically and practically. This is therefore the focus of the second research question, divided in two parts.

RQ2a: How do the characteristics of service innovation affect the different drivers of brand loyalty on a theoretical level?

RQ2b: How do these characteristics of service innovation affect the different drivers of brand loyalty on a practical level?

1.3 The Study

The above proposed research questions will be answered through a case study on Fritidsresor AB, a Swedish subsidiary of the travel giant TUI Group. Fritidsresor AB is a service company that offers package holidays, where satisfied and loyal customers are key competitive advantages. Furthermore, Fritidsresor AB tries to be pioneers in the business through innovations as the entire industry of package holidays is, due to the technological evolution, threatened by online players such as AirBnB or Hotels.com. This has forced the company to innovate their service offering and the focus of this study is thus the process of how Fritidsresor AB develop new functions for their smartphone application My Holiday as well as how they work with the introduction of a new innovation called the TUI Smartband. All this in order to achieve and enhance brand loyalty, making Fritidsresor AB a suitable theoretical case for the purpose of this study.

1.4 Disposition

The study proceeds as follows. Firstly, the evolution of innovation together with the research on service innovation and brand loyalty is presented in a literature review. This part is followed by a closer look on the different drivers of brand loyalty as they are presented in previous studies. These findings are then combined in a theoretical framework together with the characteristics of service innovation. The framework is then discussed in the light of the theory on ambidextrous organisations. Secondly, the methodological approaches of the study are presented, with regards to object of study, research design, choice of data collection method, ethical considerations, trustworthiness and limitations. Thereafter the thesis continues with the analysis where the constructed theoretical framework is applied on the case company. As such, the data collected from the conducted interviews is analysed in relation to the theoretical framework and the proposed research questions. This ultimately leads to the end of this thesis with its conclusions, a discussion regarding the role of the study in a broader research context, as well as the limitations of the study and suggestions for future research areas.

2. Literature Review and Development of Conceptual Framework

This part of the study commences with a literature review on the research of innovation, the development of service innovations and new service development as well as service innovations and its relation to brand loyalty. After this review a framework is created to converge the two constructs of service innovation and brand loyalty into one. This is done by examining the different drivers that affects brand loyalty together with the different factors that contributes to the service innovation process. These factors and drivers are then compiled and illustrated in a comprehensive model that will later be used in the analysis of the case company. Additionally, the theory of ambidextrous organisations is used to help explain the constructed model.

2.1 Innovation

The history of innovation research stretches back to the beginning of the 20th century where the first definition of innovation in a research context was made nearly a century ago (Hansén & Wakonen, 1997). Joseph Schumpeter, seen by many as the first real pioneer in the field, paved the way for much of today's research on innovation with his views on the relation between innovation and economic evolution. Beginning his research in the post-WW1 era of Austria, he drew much inspiration from Marx and proposed that all capitalist evolution is driven by technological competition between firms to increase productivity, something he called evolutionary dynamics (Fagerberg, 2004). Even though these ideas were published well over 70 years ago, they remain as relevant in today's ever changing, highly competitive digital society, as they were back then.

This productivity increase through technology that we today might label as process innovation, i.e. what Davenport (2013, p. 1) defines as "combining a process view of the business with the application of innovation to key processes", is not the only contribution by Schumpeter. Later he also broadened the view of the term and proposed innovations as the development of new products (product innovation), the creation and exploration of new markets (marketing innovation), as well as new ways to strategize and organise the business (organisational innovation) (Fagerberg, 2004). He argued that innovations were vital as they lead to creative destruction, i.e. the revolutionising of economic structures, destroying old ones and creating new ones, which ultimately drives capitalism (Schumpeter, 1942, in Aghion & Howitt, 1990).

However, despite Schumpeter's efforts of cementing the importance of innovation for economic progress, it was not until the late 1970s as the research field of innovation grew in popularity. This was likely because innovative behaviour previously considered inappropriate or disrespectful in organisations now became a necessity as companies faced a more complex, fast-moving and globalised business environment (Anderson, De Dreu & Nijstad, 2004). Consequently, the number of publications with *innovation* as topic roughly increased by 14 percent annually from around 50 in the early 1980s to more than 1000 per year in 2008 (Crossan & Apaydin, 2010). This massive growth in innovation research aside, the majority of all literature have focused on the innovation of products or processes, much less attention has been given to that of service innovation (Meyera & DeTore, 2001; Raja et al., 2013). This is troubling since services now represent a majority of the GDP for most western economies (Bitner, Ostrom & Morgan, 2008), further strengthening the reasons to perform the research undertaken in this thesis.

With regards to service innovation, this thesis follows the definition of the term from den Hertog, van der Aa and de Jong (2010, p. 494) as:

"...a new service experience or service solution that consists of one or several of the following dimensions: new service concept, new customer interaction, new value system/business partners, new revenue model, new organizational or technological service delivery system".

In other words, service innovation can be viewed as an activity where services, products, or processes are combined in a new way in order to enhance the customer experience and thus generate market value. The characteristics of service innovations also follow those of services in general; intangible in its nature, co-created together with the customer and consumed as they are produced (Bitner, Ostrom & Morgan, 2008). They are furthermore generally easier to imitate than products as they do not require as much R&D or fixed assets, giving service innovations a need to be more radical in order to obtain competitive advantage (De Jong & Vermeulen, 2003). What differentiates service innovations from other types of innovations are thus firstly the outright customer focus since the quality and success of any service is inevitably determined by the customer, and secondly that they require a higher degree of innovativeness due to the ease of which they can be copied.

The innovation of existing services or development on new ones, the latter often labelled New Service Development (NSD), increased despite its relatively little research focus radically during the 1980s and 1990s in a business context (De Jong & Vermeulen, 2003). A major driving force behind this increase is firstly believed to be the competitive stalemate across businesses due to product parity and ever-diminishing returns on product investments. This has forced companies to focus on combining products and services to create added customer value and in doing so, increasing profit margins (Shelton, 2009). Secondly, the technical evolution of late has also been a contributing factor. Not only has services alone been innovated, but technological product innovations within the service sector has also become more frequent (Furseth & Cuthbertson, 2016). This once again highlight the relevance of Schumpeter's arguments for the importance of technological progress and that the lines between product and service innovations are blurred.

That service and product innovations are becoming intricately linked is all the more obvious with regards to the arguments put forth by Furseth and Cuthbertson (2016), where they claim that even in some of the most famous product innovations, like the car, the telephone, or the light bulb, it is the service that the product provides that really creates value. The car takes us from one place to another, via telephone we are able to talk to basically anyone anywhere, and the light bulb lets us do things in a lit room instead of in a dark one. This essentially views products as service innovations through the perception of greater customer experiences or higher value, generated from new ideas. Similarly, De Jong and Vermeulen (2003) argue that NSD can deliver a new and better customer experience through the development of the entire service concept, the client interface, the delivery system and technological options. The shift in mind-set of innovation from a product perspective towards a more customer centric service approach embodies what Tuli, Kohli and Bharadwaj (2007) call customer solutions, in line with the in recent years advocated service-dominant logic (e.g. Vargo & Lusch, 2004).

In other words, when viewing innovations, one must see beyond the innovation itself and consider what service it provides or which problem it alleviates, since this is what creates value for the customer. Value creation in turn being central when developing new products or services, for ultimately generating customer satisfaction or brand loyalty (Smith & Colgate, 2007). This viewpoint of customer satisfaction through added value from services is a central concept throughout this thesis and will be discussed more in detail later.

Continuing on the customer centric service approach to innovation discussed above, according to Möller, Rajala, and Westerlund (2008) there are two modes of service co-creation, a client-driven market pull and a provider-driven market push. The former is market-oriented and directed towards the markets specific needs and wants, while the latter targets prospective clients with technology push towards the market, creating new innovative services that perhaps would otherwise not exist. The authors argue that a balanced, ambidextrous, innovation activity that combines both market and technology creation is one that organisations should strive for, hence a combination of the two modes. This as it is seen as a strategic congruence built on mutual interest, focusing on the markets needs and the providers offering portfolio, which enhances both current and future value co-creation between the organisation and the market (Möller, Rajala, & Westerlund, 2008). The value creation through innovations will further be discussed later in this thesis. Instead, it is relevant to begin with examining studies that address both innovation and brand loyalty simultaneously in order to get a better overview of the current state of the literature.

2.2 Innovation and Brand Loyalty

When reviewing the literature on innovation and brand loyalty, one must be aware that there is a distinction between innovation and innovativeness. The former have traditionally been viewed as a company creating novelty, an invention, and then bring it to the market (Ruttan, 1959). Innovativeness however is something perceived by consumers or other stakeholders. A brand or an organisation, based on the stakeholders' perceptions, could be regarded as innovative if they are able to continuously provide new and useful solutions to consumer needs (Garcia & Calantone, 2002). Thus, innovativeness is what stakeholders think in terms of an organisation's ability to introduce new products or services to the market (Pappu & Quester, 2016). Even though innovativeness is not the premiere focus of this research, the studies that take on such an approach offer insights into consumers' perception of innovation linked to the loyalty of the brand, which can be useful for companies in their development on new innovations, legitimising their place in this review.

Studies that take a consumer perspective and focus on both innovation and loyalty are becoming more recurrent and have been done from a number of perspectives. Kuntz, Schmitt and Meyer (2010) propose that the perceived innovativeness of a firm, or its brand, in the eye of the consumer, is not solely dependent on the level of innovation from a specific product or service. Instead, consumers take a more holistic perspective when assessing a brand. The level

of innovativeness of a new launch is coupled with the customer's impression of the organisation and its culture (Kuntz, Schmitt & Meyer, 2010). Furthermore, it is important for firms to not just bring new products or services to fit the market, but rather to aim at changing the market (Kuntz, Schmitt & Meyer, 2010). By doing so the authors argue that a firm may be seen as pioneers in the business, more likely to engage and create a customer base loyal to the brand.

Similar to this viewpoint is Henard and Dacin (2010) who argue that from a Signalling Theory perspective, firms signal a number of observable and unobservable attributes, subject to manipulation, regarding their innovativeness. A key aspect of this study is the important and mediating role of customer involvement in loyalty towards the firm. When firms consistently display signs of innovativeness, and the consumers experience a string of successful innovation introductions, the firm becomes relevant and the customers remain loyal (Henard & Dacin, 2010). This study certainly highlights the link between loyal customer and a brand perceived by the customer as innovative. However, the study focuses on product rather than service innovation and offers little guidance as to how firms can achieve loyalty through innovation, merely stressing that innovation need to be consistent and frequent.

Closely related to the views of Henard and Dacin (2010) above is Eisingerich and Rubera (2010) who showed that from an exchange theory perspective, brand innovativeness is closely related to brand commitment and loyalty on the basis of country culture. They proposed that in countries considered to be individualistic (in their case the UK), innovativeness is positively correlated with loyalty. This because new ideas, products and services will aid individuals in coping with everyday life and the challenges that individuals have to face alone. The exchange theory perspective advocates that individuals will be more likely to commit to a brand if the effort of committing is reciprocated by the brand through the continuous development of innovations (Eisingerich & Rubera, 2010).

Also addressing the consumer culture aspect and innovation is Palumbo and Herbig (2000) who argue that existing cultural conditions most certainly influence the adaptation of innovation. If the innovation is in line with already existing cultural lines and social constructs, there is a much greater chance of swift and successful adaptation which can lead to loyalty (Palumbo & Herbig, 2000). Simultaneously, the customer's individual innovation propensity, largely dependent on tolerance of ambiguity and deviant cultural ideas, will also play a big role in determining the outcome of an innovation (Palumbo & Herbig, 2000).

As the studies presented above link brand loyalty with innovation, they do so from a consumer perspective, i.e. they address innovativeness. Although relevant in providing insight into what affects, hinders or alleviates innovation's role in the creation of loyalty, they offer no real directions as to how this work should be done internally. As such they will further be used to understand the selected drivers behind loyalty and how innovations appeal to these drivers. However, they are not sufficient for the understanding of the process of innovation and brand loyalty.

Studies that simultaneously address the two topics of brand loyalty and service innovation or NSD from a company perspective are relatively scarce. One such example though is Matear, Gray and Garrett (2004), who investigate how investments in the two areas respectively affect the positional advantage and thus the performance of a firm. They were unable to find any strong correlations between these sources of advantages (investments in NSD or the brand) and any positional advantage in increased customer satisfaction or increased loyalty. However, it is suggested that well performing service firms must invest in both innovation and loyalty program concurrently in order to stay competitive (Gray et al., 1999).

Even though the two studies touch upon both topics addressed in this study, they fail to dive deeper into the interrelationship of the two constructs other than to suggest that working with innovation might lead to a barrier of entry in the form of loyal consumers or that the two constructs is a common trait for well performing service firms. Once again leaving little guidance as to how the two might influence each other or how they might be managed.

Studies that positively describe how new services are developed and managed internally such as Smith and Fischbacher (2005) stress the importance of incorporating a multitude of stakeholders other than the consumer. They argue that the success of an innovation is dependent on several external actors and the internal structures of different stakeholders and how the company manages to handle relationships between them. Although an internal stakeholder perspective being important for this study, the authors only briefly mentions that a successful management of these stakeholder may ultimately lead to satisfied and loyal customers, without investigating the link further.

This concludes the overview of current literature on brand loyalty and innovation. As apparent, this study has failed to find a theoretical framework linking the innovation or development of new services to brand loyalty, which will instead be the aim for the next part

of the thesis. This is done by examining already existing frameworks of both service innovations and NSD as well as brand loyalty, in an attempt to merge the two into one.

2.3 Service Innovation

With regards to frameworks for service innovations and the development of new services, this area is still rather under-researched and often based on traditional product development models (Furseth & Cuthbertson, 2016). An important aspect towards a functional framework of service innovations is to abandon the relinquishing idea of innovation being a linear, sequential process (Chesbrough, 2011). Instead, service innovation has been argued to be more of an on-going, iterative process, without time consuming "stage-gates", i.e. that the end and start of various stages that needs to happen sequentially (Stevens & Dimitriadis, 2005).

Furthermore, the notion of innovation being developed by one department, implemented by a second one and used by a third one must be disregarded. Instead, service innovation is often a result of a co-operation (sometimes unforeseen) between different departments in a number of informal steps (Stevens & Dimitriadis, 2005). With this being said, there are a number of stakeholders and factors that define service innovation and the development of new services in the literature, they will thus be presented further.

Despite being described as under-researched by Furseth and Cuthbertson (2016), the literature on service innovation offers a plethora of constructs in various frameworks proclaiming to offer the "solution". This study does not have any ambitions of constructing a normative, all-comprehensive model of service innovation but rather aim to find some overlaps between frameworks useful for the purpose of the study. The first thing to be quite apparent when viewing the literature is the notion that there are factors affecting service innovation both from inside the company, and from outside its boundaries.

Commencing with exogenous factors from outside the company boundaries, one such is the *Consumer*. One author that address the consumer involvement in the innovation process especially is Chesbrough (2011) with his model of Open Service Innovation. He argues that in order to create and sustain differentiation in the market, one should think of the organisation as an open business, co-creating innovation with the customers in order to generate experiences that the customer values. Another advantage of involving the customer is the ability to customise solutions by identifying their needs, which is key in order to satisfy customers (Chesbrough, 2011; Raja et al., 2013).

A similar thought is proposed by Edvardsson and Olsson (1996) who argue that a successful service innovation must incorporate the customer as they can provide valuable information about their needs, a notion supported by other authors (e.g. Stevens & Dimitriadis, 2005; Furseth & Cuthbertson, 2016). However, when collaborating with the customer, Ordanini and Parasuraman (2010) urge companies to take heed of the fact that the innovation may be limited to incremental levels rather than becoming radical. This due to the fact that the capacity to generate knowledge is dependent on previous experience because individuals learn new concepts by invoking what they already know. This may be seen as troublesome since service innovations, as previously discussed, need to be more radical because they are more easily copied.

The customer may be seen as a key external factor but Smith and Fischbacher (2005) stress the incorporation of multiple stakeholders that may provide input into the service innovation process. Thus *Competitors* with their introduction of new innovations to the market, forcing the company to innovate or be outcompeted (Stevens & Dimitriadis, 2005) will also be included. For example, Porter (2000) mentions that a cluster of competitors in an industry could lead to the increase of productivity of constituent firms. Also *Suppliers* within the value chain spurring innovation radicalness (Ordanini & Parasuraman, 2010) will be included in the framework.

Another external factor that affects the development of new services is that of the *Physical and Technical Environment*. Edvardsson and Olsson (1996) puts forth that the leveraging of opportunities offered by technical developments may be absolutely essential for the survival and development of the company. They also stress that technology should not be considered as a goal in itself but as a means of creating favourable conditions for better services. As it happens, many service innovations today are both triggered and facilitated by technological progress (Froehle & Roth, 2007). Furseth and Cuthbertson (2016) argue that technology today play a much bigger role as customers may interact with the company both physically and electronically simultaneously. Also, Frohle and Roth (2007) claim that the physical environment that the organisations resides in may have an impact on how the process of innovation proceeds, but does not delve deeper into how this works specifically.

As far as internal factors go, one of the strongest influencers on service innovations is the *People* working for the company. Furseth and Cuthbertson (2016) discuss that people can be both enablers and obstacles in the innovation process. For example, the service staff may

identify room for improvements but then again there may be controllers in the organisation that focus on consistency rather than change. However, the staff is usually considered to be a key resource for a service company and should thus be treated the same with regards to innovation (Edvardsson & Olsson, 1996). For this to work, it is vital that the working environment of the company is one where input and ideas are encouraged and valued, without penalising staff for ineffective ones. It is only in such environment that employees feel empowered and motivated to develop new ways to provide services (Ordanini & Parasuraman, 2010).

Naturally, the staff of the company does not always work in solitude but rather form smaller groups of people. The dynamic of these groups is certainly relevant for innovation but more than so, these groups are fitted into the *Organisational Structure*. The role of the organisational structure is to clearly define responsibility and authority in an appropriate manner, i.e. who is responsible for the various activities in connection with the introduction of a new service (Edvardsson & Olsson, 1996). The organisational structure can according to Froehle and Roth (2007) be many things: management system, attitudes, and personal relationships developed internally in the company.

Last but not least, when developing a new service, the company have a number of *Tangible & Intangible Assets* to leverage in their favour. Furseth and Cuthbertson (2016) propose that a company uses a number of fixed and current assets such as offices, shops, and inventory, or more abstract attributes such as the brand, patents, or trademarks when innovating services. These are highly individual in importance, varying from company to company as well as depending on the situation, making it difficult to pinpoint the role as there are many types of assets and an endless amount of innovations to be made. This ends the discussion regarding the different parts of the service innovation model, and it continues with examining the various drivers of brand loyalty as they are presented in previous literature to complete the framework.

2.4 Brand Loyalty, from Construct to Drivers

Despite the unanimous support for the construct in itself, there is much debate as to what loyalty exactly is and how to measure it (Gremler & Brown, 1996; Rundle-Thiele & Bennett, 2001). In fact, Jacoby and Chesnut (1978, in Rundle-Thiele & Maio Mackay, 2001, p. 543) found more than 80 measures of brand loyalty in the marketing literature, making one, all-

including framework difficult to find. However, mainly two different approaches towards loyalty drivers reign, the behavioural and attitudinal approach (Bandyopadhyay & Martell, 2007; Evanschitzky, Iyer, Plassmann, Niessing, & Meffert, 2006; Gremler & Brown, 1996). The former is considered as the repetitive behaviour of the customer in purchasing a certain brand whilst the latter focus more on the preferences or intentions towards the brand in its evaluation towards competing brands (Bandyopadhyay & Martell, 2007).

Champions of the attitudinal approach of brand loyalty claim that repurchase is not alone sufficient evidence of brand loyalty, any purchasing practice must be intentional (Rundle-Thiele & Bennett, 2001). Brand loyalty comprises various degrees of commitment toward the quality of a brand, which in turn is a function of both positive attitudes and repetitive purchases (Tepeci, 1999). In fact, it could mean an attachment to a brand despite inferior functional, symbolic or psychological attributes (Bandyopadhyay & Martell, 2007). As such, repetitive purchase of a brand depends on the consumer's perceived benefits related to keeping on this relationship with the brand (Amine, 1998). This thesis advocates the fact that one must look beyond repeat business when talking about loyalty and realise that loyalty has a deeper meaning for customers, where they seek out and maintain a relationship with a brand.

As the positioning of brand loyalty is done, the theoretical framework in this thesis is created based on drivers of loyalty systematically identified by a number of authors with different approaches to secure the inclusion of frequently used drivers. Thus, as value creation is a central concept in service innovation, and have by a multitude of authors been identified as an antecedent to brand loyalty (e.g. McNaughton, Osborne & Imrie, 2002; Brodie, Whittome & Brush, 2009; Laroche, Habibi, Richard & Sankaranarayanan, 2012), the first driver to brand loyalty is the concept of *Perceived Value*.

2.4.1 Perceived Value

Value in itself is portrayed differently depending on research field (de Chernatony, Harris & Riley, 2000). In pricing for example, value has been defined as the balance between the consumers' perception of the advantages generated against sacrifices required (Leszinski & Marn, 2000), whilst in consumer behaviour research, de Chernatony, Harris and Riley (2000) define value as the fulfilment of the consumers' needs and wants, characterised by different factors such as the consumers' own perceptions, the surrounding culture or the situational context etc.

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The latter definition would argue that the value created by an innovation, be it a product or service, is subjective and ultimately defined by the consumer and not easily managed. This notion is further supported by Vargo and Lusch (2008) and is sometimes referred to as perceived value (Möller, Rajala, & Westerlund, 2008). The latter definition is more in-line with the arguments presented earlier that the success of a service innovation is highly dependent on the consumers and thus the term Perceived Value is chosen instead of just Value.

The consumer centric mind-set of value creation above partly contradicts the traditional Resource Based View (RBV) approach, proposed mainly by Barney (1991). The RBV sees the company as the creator of value, considering the customer a passive recipient. According to Möller, Rajala and Westerlund (2008), a RBV is insufficient when it comes to value creation, especially with regards to service innovation. According to them, value creation varies largely dependent on the degree of innovation as well as the readiness of the consumer. They argue that smaller incremental innovations can create great value if the readiness or expectation of the consumer matches the level of innovation.

This means that even though a service innovation provides radically new and highly functional benefits, it is not a guarantee for value creation if the consumer is not in-tune. Instead there must be a balance between the level of innovation and the consumer readiness to adopt. As such, according to the study of Möller, Rajala and Westerlund (2008), the company with its resources is not solely responsible for the value creation, but neither is the consumer. Instead it is the relation between the innovating company and the consumer, and whether or not they are balanced, that define the value creation and ultimately the success of an innovation. This is not unlike the findings of Palumbo and Herbig (2000) on individual innovation propensity presented above that the success of an innovation is dependent on the readiness of the consumer.

The two studies both provide evidence to support the same viewpoint of relational dynamic between firm and consumer. This thesis largely supports this view that service innovation, its value creation and the concept of brand loyalty cannot exclusively be a result of one actor. In other words, the company with its resources and internal organisation must provide the conditions, supply the innovation and together with the customer create value with the hope of in the end generate brand loyalty. As such, service innovation and value is a co-creation based on the relational dynamic of both the firm and the consumer.

Extending these thoughts of a company as an enabler providing innovation to be valued by the consumer is Raja et al., (2013), as they claim that the value creation in innovation of services lie in the ability to customise and to cater specific customer needs. Naturally, in order to cater these needs, firms must firstly set out to understand what the customer wants. But more than so, Raja et al. (2013) point towards two specific areas of focus when developing new service innovations, namely access and relational dynamic. In their study of service companies in the UK and Ireland, the authors identified that access in terms of innovation concerns that of availability, i.e. new service innovations must ensure increased availability of the core product or service when the customer wants it. The innovation must also consider the relational dynamic of a service encounter, underpinned by trust and partnership with the customer. According to their study, this second part is important as it demonstrated a mutual obligation and interest from the firm towards the individual customer (Raja et al., 2013). The last construct highlights the ideas of value creation as a relation between company and consumer.

2.4.2 Perceived Quality

The second driver of brand loyalty identified is that of *Perceived Quality*. Arguably this driver is closely linked to Perceived Value, i.e. if something is perceived to have high quality it will lead to the perception of having value and vice versa, but as a number of authors below uses this as a stand-alone driver, this will be done in this study as well. Bloemer, De Ruyter and Peeters (1998) uses this construct in their study of the banking industry where they argue that perceived quality with the consumer is an independent variable affecting the dependent variable of customer satisfaction (which is why this is not a driver of loyalty in the framework), that in turn affect brand loyalty. According to them, perceived quality is a result of the outcome of the service delivery process compared to the prior expectations.

This view of the construct is shared by Caruana (2002) who talks about a gap between expectation and reality often resulting in poor perceived quality. Similarly, Rauyruen, Miller and Groth (2009) found a strong statistical connection between perceived service quality and the attitudinal behaviour of brand loyalty. Tepeci (1999) offer an explanation to such a connection by arguing that a brand, and the consumer perception of it, will affect the perceived quality of the service and ultimately the loyalty. This since customers feel more comfortable with branded vs. unbranded products, i.e. choosing a branded products functions as a risk reducer and thus increasing the perceived quality.

2.4.3 Switching Cost

This last perception of perceived quality is not far from the third identified driver of brand loyalty, namely *Switching Cost*. This driver concerns whether or not the consumer aims to either maintain or terminate a relationship with a particular service provider (Jones & Taylor, 2007). A strong resistant to change from the consumer is one of the most fundamental tendency of commitment and a key antecedent to loyalty (Taylor & Hunter, 2003) making it especially critical for services and in relational exchange (Gremler & Brown, 1996). Dick and Basu (1994) talk about switching cost in a number of different contexts. It can for example occur due to the service or product is purchased as a part of a bigger overall system (e.g. razor blades for a razor), when the start-up cost for something is significantly higher than the following purchases in a series or when switching means losing incremental rewards from loyalty programs etc.

The factors mentioned above are mainly monetary switching cost, but naturally there are other psychological cost, more difficult to measure and more intangible in its nature. One of those is the cost of taking a risk. Gounaris and Stathakopoulos (2004) talk about risk aversion relating to a brand within the construct of brand loyalty. In their view, a purchase of a product or service may be associated with a certain risk and thus provide a barrier for brand loyalty. However, the opposite may also very well be true, that is that the cost of switching brand in relation to a purchase associated with risk may in turn generate a loyalty towards the already existing and well-known brand. The cost of risk aversion may be especially central to services since they are intangible and heterogeneous (Rundle-Thiele & Bennett, 2001). Lastly, another psychological switching cost stems from the social bonds created over time with the brand and its staff (Aydin & Özer, 2005). From a relational perspective, these bonds create a certainty about the service and the perceived quality the consumer obtains.

2.4.4 Trust

As these bonds are created between a service provider and the consumer, *Trust* is developed, making it the fourth driver of brand loyalty. One could argue that trust, or the lack thereof, can be defined as a switching cost but the driver is often treated separately in the literature and will therefore be done so in this thesis as well. Trust is essentially about one party believing that the other party's action will result in a positive outcome for itself (Aydin & Özer, 2005). It has also been argued that from a social exchange theory perspective, there is a difference in trust pre-purchase and trust post-purchase. The pre-trust will directly influence the post-

purchase satisfaction and thus generate new or reduce the level of trust that existed before the purchase (Chiou, 2004).

This mediating role is confirmed by Taylor and Hunter (2003) as they failed to identify a direct correlation between trust and loyalty, but rather that trust affects the customer satisfaction and the perceived quality of the service, leading to loyalty. However, a direct link between trust in the service provider and attitudinal loyalty was established by Rauyruen, Miller and Groth (2009) validating its place as a direct driver. Regardless, trust plays a central role in the creation of brand loyalty, and as discussed above, it does so both before and after the purchase. Importantly, it is not only in immediate proximity of the purchase that trust is prevalent, trust also functions as a preserver of relationship with future exchange partners. The promise of a positive outcome that is sought after by the consumer is believed to continue in the future (Aydin & Özer, 2005).

2.4.5 Corporate Brand Image & Reputation

The final driver of loyalty in the framework is that of the *Corporate Brand Image & Reputation*. Some authors treat image and reputation separately (e.g. Tepeci, 1999) and others as one construct (e.g. Gounaris & Stathakopoulos, 2004) but for the sake of simplicity, they will be treated as one in this thesis. Corporate image is often described as the overall impression that the stakeholders have of a company. Be it good or bad, the consumers have some kind of relational attitude towards the brand, making attitude an influencer of behaviour (Aydin & Özer, 2005). In this case the behaviour being that of loyalty through repetitive purchases. But more than so, a solid corporate image and a healthy reputation also affect the attitudinal side of loyalty, increasing the satisfaction of the purchase and the brand (Gounaris & Stathakopoulos, 2004).

Often can a reputation for good quality lead to the perception of good quality with the consumer (Tepeci, 1999), especially with the lack of tangible attributes in service delivery. Once again there is a debate as to whether or not a direct relation between image and loyalty has been established or if it is mediated by factors such as perceived quality. However, one such direct relation is that of positive re-enforcement of self-image through the brand, i.e. one might stay loyal to a brand since the image of the brand reflects a desirable self-image (Tepeci, 1999), validating its place in the framework.

This concludes the theoretical discussion on brand loyalty and its drivers in the proposed framework. A total of five drivers have been identified and selected from the literature; *Perceived Value, Perceived Quality, Switching Cost, Trust* and *Corporate Image & Reputation*. Together they act as independent variables, ultimately impacting the loyalty of consumers towards a brand. Knowingly, some authors have pointed towards the fact that certain drivers not only influence loyalty directly but also each other, i.e. that perceived value might contribute to increased switching cost etc. This might of course be the case but it falls out of the scope of this thesis to further investigate these connections. Neither is whether or not a certain driver appeals to the attitudinal or behavioural side of loyalty of paramount importance for the purpose of the study.

This concludes the discussion regarding a framework for linking innovation to brand loyalty. All in all, the thesis identifies five drivers of brand loyalty in Perceived Value, Perceived Quality, Switching Cost, Trust and Corporate Image & Reputation. The model for service innovation in turn consists of four exogenous factors in Consumers, Competitors, Suppliers, Physical & Technical Environment, as well as the three endogenous factors in People, Organisational Structure, and Tangible & Intangible Assets. These are presented in the framework below (see Figure.1).
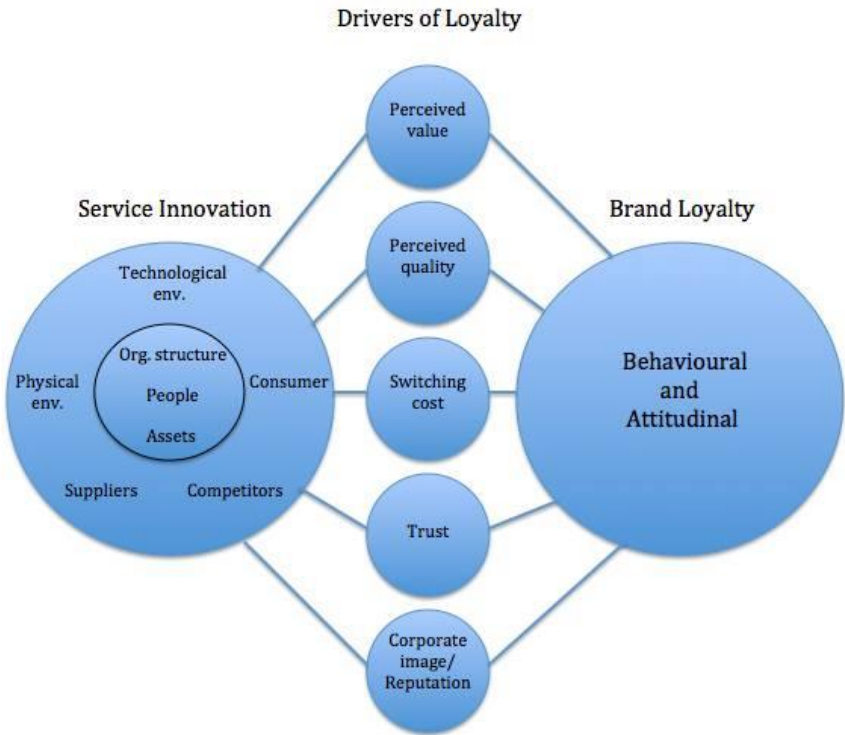

Figure. 1 Framework for Service Innovation and Brand Loyalty

The different exogenous and endogenous factors of the Service Innovation process are illustrated on the left and they in turn affect the drivers of brand loyalty in the middle, which help create brand loyalty on the right. This model will further be used to understand the connection between the Service Innovation process on the left and the drivers in the middle. However, as previously discussed in the introduction of this thesis, addressing these two highly vital areas of business is not an easy undertaking for companies. Balancing current focus while defining future needs is one of the toughest managerial challenges in organisations today (O'Reilly & Tushman, 2004), which closely relates to the focus of this study, keeping current customers loyal whilst still innovating for the future. This fact leads to a discussion regarding the ambidextrousness of organisations in the light of the framework presented above.

2.5 Ambidextrous Organisations

The activity of being an ambidextrous organisation has been argued to increase organisational performance, increase sales growth, and facilitate firm survival (e.g. O'Reilly & Tushman, 2004; Gibson & Birkinshaw, 2004; Geerts, Blindenbach-Driessen & Gemmel, 2010). This because organisations are flexible in the exploration of new territories while still exploiting the present and their current business, recognised as a critical source of competitive success (Markides & Chu, 2008). To clarify the construct, O'Reilly and Tushman (2013, p. 324) define organisational ambidexterity as;

"...the ability of an organization to both explore and exploit - to compete in mature technologies and markets where efficiency, control, and incremental improvement are prized and to also compete in new technologies and markets where flexibility, autonomy, and experimentation are needed..."

making ambidextrous organisations a type of organisations, or at the very least a type of organisational strategy. Despite being heavily advocate, there is no clear description of how and when organisations should act ambidextrous (O'Reilly & Tushman, 2013). Instead what is often stressed in the literature is that exploration and exploitation do not need to be competing activities. They should rather be complementary, and firms often use a combination of both exploration and exploitation in order to balance activities (Chen & Katila, 2008).

Studies of organisational adaptation argue that in order to cope with the environmental and technological change required, organisations need to change their structural alignments. Hence, it is under conditions of market and technological uncertainty that this strategy is at its best and has a positive effect on firm performance, both on service and manufacturing firms (Blindenbach-Driessen & Ende, 2014). Ambidextrous organisations are argued to put in place dual structures in order to manage trade-offs between conflicting demands. The dual structures will be different units focusing on alignment and adaptation separately in order to be efficient (Duncan, 1976; O'Reilly & Tushman, 2013).

Hence, organisations commonly separate their new exploratory units from the exploitative and more traditional ones, investing in both current and future projects, which allows for different structures, processes and cultures. More specifically this means that the exploitative unit deliver products and services to the existing customer base through refinement and incremental improvements of firm resources whilst explorative units are characterised by radical change, higher level of risk, and experimentation with new methods, relationships, products or services (Sarkees & Hulland, 2009). With regards to the theoretical discussion above on service innovation and brand loyalty, this theory would allow a company to form exploratory units to focus on developing new service innovations whilst still finding the organisational space to focus on catering already existing customers, building brand loyalty.

As such, successful organisations manage to reconcile trade-offs in current and future projects and avoid being left behind in markets or by technological development (Gibson & Birkinshaw, 2004). Simultaneously, they keep tight links across all the units at a more senior executive level in order to cooperate well between them, allowing for cross-fertilization among units. Due to the tight coordination among managers, the exploiting units in the organisations can share resources and expertise, with the explorative unit still being able to focus all its energy on their products or services and customers (O'Reilly & Tushman, 2004). Thus, through a tightly integrated managerial team, they manage the new organisational separation necessary for creating breakthroughs or radical innovations while enhancing their long-term competitiveness (O'Reilly & Tushman, 2004 & 2013). However, one of the more difficult obstacles to overcome for managers is the division of resources among exploiting and explorative units as short-term thinking in form of efficiency and cost saving often takes precedence in favour of long-term goals of new product or service development (Sarkees & Hulland, 2009).

Looking at these last arguments for ambiguity in relation to the Service Innovation - Brand Loyalty framework, it would allow the People from different areas of the company to form an Organisational Structure, focusing on innovation whilst the tight link between units through Top Management allows for cross-fertilization and a simultaneous focus on brand loyalty. In other words, organisational ambidexterity is about coping with necessary transitions in a market or in an industry whilst still keeping focus on what made them successful and what created loyal customers in the first place.

Lastly, previous research (e.g. O'Reilly & Tushman, 2004 & 2013; Gibson & Birkinshaw, 2004) stress the alignment between units, that they work towards the same ultimate goal of achieving satisfied customers and increased profits. This once again endorse the use of the theory as a means of finding the connection between innovation and loyal customers, and how to implement that process efficiently in an organisation. And as previous research within the area of innovation management found ambidextrous organisations to be more successful and outperform other organisational types (O'Reilly & Tushman, 2004; Gibson & Birkinshaw, 2004; Geerts, Blindenbach-Driessen & Gemmel, 2010), this further strengthens the theory's appropriateness as a choice in order to realise and understand the needed components of efficient innovation management and its relation to loyalty.

Conclusively, this part of the study has listed a number of factors that help create Service Innovations whilst also listing a number of relevant drivers of brand loyalty, illustrated in the model presented above. This model has also been discussed using the theory on ambidextrous organisations. However, what is still missing is how the factors of service innovation affect the drivers of loyalty and how organisations handle these contradicting demands through explorative and exploitative units, which is investigated in the analysis part of the study. How this investigation of the purpose was done is presented below in the method part.

3. Method

This part of the study commences with the object of study and the empirical material needed to investigate the research purpose. The discussion then continues with the ontological and epistemological approaches that govern the chosen method. This ultimately leads down to the methodological approach and a description regarding the interview process that was the chosen mean of data collection as well as how the data was analysed. Lastly some considerations with regards to the study is presented such as its trustworthiness, authenticity and potential limitations.

3.1 Object of Study and Empirical Material

As presented in the introduction and background of this study, the purpose of this study is to investigate how organisations in the service sector work with creating brand loyalty through service innovation. Correspondingly, the questions asked to fulfil the purpose are how an organisation can handle the relationship between explorative and exploitative units, and how the characteristics of service innovation affect the different drivers of brand loyalty, both on a theoretical as well as a practical level. With the purpose of this thesis lies an assumption that the process of creating brand loyalty through innovation is a multi-divisional process where one unit mainly focus on the development and implementation of the innovation, whilst other units, such as sales and/or marketing are mainly responsible for creating brand loyalty, often through customer satisfaction.

What needs to be studied is therefore the entire innovation process within the organisation, where the interaction among different departments is key. What this means is that the object of study, governed by the proposed research questions, is the behaviour, actions and interactions among actors and units in this process. The main focus is therefore to understand how and why actors behave in a certain way in order to be able to understand the complete process of turning an innovation into brand loyalty. Thus, the innovation as such with its various attributes falls outside the boundaries of the object of study.

In order to understand this phenomenon, a process research will be conducted. Pettigrew (1997, p. 338) gives the definition of a process as "...a sequence of individual and collective events, actions, and activities unfolding over time in context". Due to the fact that a process research could help explain conceptions and activities from actors within a process, and why some events occur in certain ways (Langley, 1999), it is seen as an appropriate choice.

However, the object of study being a process comes with a number of difficulties. Langley (1999) argues that a process in nature can be hard to identify in detail as it many times include multiple levels and units of analysis with ambiguous boundaries.

Regarding the empirical material needed to answer the research questions, what firstly needs to be done is to get access to people working in the different units that handle these questions of innovation and brand loyalty in the organisation. As Langley (1999) suggests for a process research, one needs to find data from multiple levels and multiple areas. Since both service innovation and brand loyalty may be linked to an overall strategy of the organisation, what is needed is also input from people with insights in strategic decisions, i.e. at least upper-middle managers.

With reservation to abovementioned empirical material needed for this object of study, Langley (1999) mentions that it might be hard to state exactly what is needed when it comes to process research and its boundaries may vary. Therefore, it is difficult to frame exactly which data that is needed and from where, as information might present itself during the data collection that require the researches of this paper to move outside the initial scope. This became apparent during the collection of data for this study as new information from respondents many times led to novel insights of the innovation process and thus encouraged further data collection from other sources within the company that were not included in the initial planning of empirical material needed. This was however not seen as something negative but rather a positive outcome as the data collection broadened the view of the innovation process and encouraged a more detailed description of it.

3.2 Ontology

In order to increase the quality and creativity of a research, it is important to understand the study's ontology, many times referred to as the researcher's philosophical assumptions about the nature of reality (Easterby-Smith, Thorpe & Jackson, 2012), meaning, what is out there to know? Bryman and Bell (2011) describes the question of ontology as a question of social entities where the issue is to understand whether or not these social entities can and should be considered objective entities, separated from the social actors, or if they are inevitably intertwined. The former ontological position is known as objectivism and the latter as constructionism.

Contradictory from objectivism, constructionism presumes that social phenomena are constantly in revision. Moreover, Pettigrew (1997) states that in a process, the social reality is not a steady state that merely exists, but rather a dynamic process that occurs. Thus, since this research wants to understand how organisations work with the process described above, and that the doings of different actors are of importance, constructionism is the ontological position that defines this study.

A constructionist position to the object of study further appears appropriate given the nature of process research. It declares that a social phenomenon is not only being produced through social interaction, but also being constantly revised (Bryman & Bell, 2011), which gives more flexibility to the process of innovating for loyalty by social actors through constant interaction. Additionally, Easterby-Smith, Thorpe and Jackson, (2012) argues that in social constructionism one should appreciate the different meanings and constructions that actors place upon their experience, and the ways different actors communicate with each other.

For this research it is assumed that the interaction and collaboration between different departments is of importance for the process, strengthening the ontological position of this study. Mentioned is also that rich empirical data is needed for this research, which is the way in which research progress through in social constructionism (Easterby-Smith, Thorpe & Jackson, 2012).

3.3 Epistemology

There is a close link between the philosophical approaches of ontology and epistemology, hence, as a result of the ontological position; a researcher's epistemological position emerges. Epistemology referring to the assumption made about the best way of inquiring into the nature of the world and establishing truth (Easterby-Smith, Thorpe & Jackson, 2012), thus; how we know what we know.

Bearing in mind what is said above with regards to the research questions, the object of study and ontology, most in accordance with these parts would be an interpretative epistemology. Interpretivist advocates that there are indispensable differences between social actors and the objects of the natural sciences. Truth is developed in social interaction and it entails investigating and understanding the meanings that these actors give to their actions (Saunders, Lewis & Thornhill, 2009). Since natural sciences are not related to the study of societies, which positivism advocates (Bryman & Bell, 2011), but rather that this research assumes that

actors within the process research will have influence on the proposed outcome, this position appears appropriate.

Moreover, social interaction among actors in an organisation is assumed to be influential for the process as such. Thus, due to the importance of societies as well as the individual, and since a positivistic position advocates that the truth is out there to be discovered rather than being based on social interaction, an interpretivist position is concordant. Realism is neither appropriate to this case since it is similar to positivism in that sense that it assumes that there is an external reality out there, a reality separate from our descriptions of it where actors will influence it (Saunders, Lewis & Thornhill, 2009).

3.4 Methodology

In order to acquire the information needed for this study, either a deductive or an inductive approach can be undertaken. Induction, as opposed to deduction, means trying to theorise from the data one collects through specific questions or observations that opens up for more general conclusions to be drawn which is argued to lead to new theory within an area (Bryman & Bell, 2011). The inductive strategy is then particularly compatible for a study like this one when trying to uncover, understand and then theorise on the beforehand mentioned process. Induction is also more suitable when trying to understand why certain things are happening rather than merely describing what is happening (Saunders, Lewis & Thornhill, 2009), being the case in this study.

An important reservation to make though is that any approach, be it inductive or deductive, often contain some elements of the other. As Bryman and Bell (2011) suggests, an inductive approach is not without its theoretical assumptions, and neither is this study. This study relies on a previous understanding of both the role of innovation and loyalty creation, but seeks to deepen the understanding of their relation. Thus, in this study data collection and theoretical reflection of the findings was done interchangeably in order to fully establish whether the theory will or will not hold. Several researchers (e.g. Bryman & Bell, 2011; Easterby-Smith, Thorpe & Jackson, 2012) states that such approach is referred to as *iterative induction*, and it involves that the researches waves back and forth between empirical findings and theory. This is in line with how Alvehus (2013) describes abduction, a combination of the two approaches induction and deduction. However, as the description of iterative induction is in line with the intended strategy for this study, it will be the methodological approach referred to henceforth.

3.5 Methodological Approach

As iterative induction is chosen as methodological approach for this research, a qualitative method is an appropriate research strategy as they are typically unified (Bryman & Bell, 2011). Bearing in mind the above chosen philosophical assumptions, it furthermore appears as the preferred method to use as a qualitative approach rejects a natural scientific position and positivism while it stresses the generation of theories (Bryman & Bell, 2011). Thereof, a qualitative research strategy supports the abovementioned view of reality, where individuals in the process need to be examined. A qualitative method is also far more appropriate when there is a need to collect rich and in-depth material that later will be assessed and analysed, and where general conclusions ultimately will be drawn (Holme & Solvang, 1997). Additionally, a qualitative approach is more interconnected with research questions, as is the case in this study, whereas a quantitative approach many times is based on hypotheses (Bryman & Bell, 2011).

Moreover, as the purpose of this study being exploratory in nature, Malholtra (2010) states that qualitative research in general is explorative and aims to understand the problem as such as well as the underlying factors for it. In order to understand the underlying factors for why actors in the process act in a certain way, thus the why question in regards to the processual analysis being described above, an exploratory approach is opted for. A more exploratory stance is also often more preferable when new theory is to be generated rather than tested (Bryman & Bell, 2011), being the case in this study.

3.5.1 Research Design

With regards to previously presented arguments of using an iterative inductive approach to theory building, it is relevant to discuss how to go about finding this qualitative data. Eisenhardt (1989) considers the process of inducting theory from case study research and emphases the benefits that case studies provide. Particularly suitable for this study, case study focuses on the understanding of the dynamics in a single setting, as well as the complexity and specific nature of a particular case suitable for the research as such (Yin, 2014). Being a processual analysis, Pettigrew (1997) states that in such a study the aim is to create a case study rather than anything else. Furthermore, single cases are generally connected to a constructionist standpoint (Easterby-Smith, Thorpe & Jackson, 2012), as is the case here. However, according to Eisenhardt (1989), in theorising from case study it is important to begin at a position where no theory is under consideration. Referring to the discussion above,

this is not entirely true for this research. However, the lack of a particular theory on the process of working with innovation to strengthen loyalty may come relatively close to no theory under consideration.

Moreover, Yin (2014) highlights the fact of choosing cases for theoretical relevance rather than cases based on statistical relevance. This is particularly significant if the aim of the research is to fill a theoretical gap, as in this case. This is something the authors of this thesis has been trying to take into consideration, to choose a case that does not represent a statistical representation but rather have a great theoretical relevance. Eisenhardt (1989) discusses the frequent overlap between data analysis and data collection in terms of case studies. With regards to previously presented ambiguity of process research, with a lack of clear restrictions that require researchers to frequently revise and consider what is relevant and what to analyse, a case study is further seen as an appropriate research design. Given the purpose of this research, this design allows getting close to the data, and as Yin (2014) also suggests, one of the main benefits with a case study research is its capability to generate novel theory, which would be an ultimate outcome for this study. Bryman and Bell (2011) also mention that the exponents of a case study is certainly helpful when one needs to examine a case in detail and provide an in-depth elucidation of it, as is the case with the innovation process being researched in this study.

However, with aforementioned arguments in mind, one must also be aware of the potential weaknesses of choosing case study as research design. Eisenhardt (1989) warn that building theory from a case can be narrow and specific for the chosen case, incapable to generalise on a larger scale. Flyvberg (2006) criticises this argument though, both by declaring that generalisation is only one way in which to gain and gather knowledge, and moreover that it is possible to generalise, all depending on the chosen case. However, this study does not intend to produce statistically evident theories applicable for all types of organisations across several industries, but rather deepen the knowledge and understanding of how this process may look like in a specific industry, making case study a justified research design.

3.5.2 Research Method

With regards to the object of study for this research, allowing for the possibility to get close to the data seems like an appropriate idea. On the topic of data, the question of primary and secondary data appears. The value of primary data is that it can lead to greater confidence and new insights for the outcome of the research (Easterby-Smith, Thorpe & Jackson 2012).

However, acquiring primary data may be both difficult and time consuming, but despite this, this research relies mostly on primary data collected from relevant respondents.

In qualitative research the two most prominent methods for collecting primary data are participant observations and interviews. Both methods allow to get close to the data and are especially useful when it is important to fully understand individuals' behaviour (Starrin & Renck, 1996), being the case in this study. Interviews are preferable when different actors' behaviour is of importance for the study, and it is often a more time-convenient process if one is to research a very extensive and thorough process making it more convenient to understand and reconstruct past events in a process (Bryman & Bell, 2011). It could be argued that the combination of conducting both observations and interviews would be the ideal choice, but since the internal process being researched is a very lengthy one, and that several things already have occurred in the process, the former appear difficult and unmanageable.

Thereof, chosen is what Starrin and Renck (1996) argue to be one of the most widely retained method in qualitative research, interviews. The term is widely used and often comprises a number of alternatives for the researches, such as focus groups, group interviews, semi-structured interviews, or unstructured interviews, each one with its distinctive character and purpose. Qualitative interviews are usually less structured to allow more flexibility than a quantitative choice (Fontana & Frey, 1998), which furthermore makes it appropriate for this specific research. This since the research is not strictly grounded on preceding theory aimed at testing certain hypotheses, but rather aims at generating new theory. Moreover, as the study has an explicit focus with specific research questions, interviews can be directed towards that particular focus. While doing so, qualitative interviews encourage so-called "rambling", meaning that the interviewer encourages the interviewee to continue talking freely in order to fully express their thoughts and feeling instead of just answering the single question (Bryman & Bell, 2011). This might be helpful when trying to uncover underlying factors for the process as it emphasizes the interviewees' own perspectives, the interest in their point of view, which could result in richer and more detailed findings (Bryman & Bell, 2011). This was the case during some of the interviews, where a couple of respondents to a beginning found it difficult to fully express themselves, however, as soon as they got a little direction the interviews yielded rich and more detailed data about the process as such.

Additionally, as interviews generally are a highly appreciated research method due to the flexibility in terms of time and resource management, which is an aspect to consider in this

study, it is also a natural choice for constructionist studies. Easterby-Smith, Thorpe and Jackson (2012) state that qualitative interviews is an appropriate method for constructionist case studies, as it opens up and involves sampling from several individuals but still within one organisation.

3.6 Interviews

When conducting qualitative interviews there are two main approaches to take, unstructured interviews or semi-structured interviews. The chosen approach in this study was semi-structured interviews since they according to Alvehus (2013) usually follow a list of topics or questions to cover, which facilitates the data collection process. The order in which the questions are asked and discussed is not particular important as long as they are all covered during the interview in some way, making it more structured (Saunders, Lewis & Thornhill, 2009), and therefore more suitable since this research covers specific research questions to be answered. As the study as such has a fairly clear focus, and since the process being researched is assumed to cover several areas and business units, a semi-structured approach furthermore emerges as the most appropriate choice. Because, when this is the case, and when respondents might have to recall specific events, the semi-structured approach is better equipped to address specific issues.

Strengthening the chosen interview approach, in a semi-structured interview the interviewer can use the answers of the respondent to ask follow-up questions, and in this way fully uncovering what is sought after (Alvehus, 2013). To take into consideration, as this approach requires a set of predetermined topics to cover, it suggests some form of initial understanding of the area being researched. However, as this might be seen as slightly contradicting towards the idea of performing an inductive process research, without prior theoretical knowledge aimed at theorising, important to stress is the aforementioned choice of an iterative induction approach, which allows waving back and forth between previous theory and data. Moreover, the authors acknowledge the fact that the interviews were performed with a previous understanding of the role of service innovation and brand loyalty, but with a lack of a definitive theory on how to combine the two. More so, entering an organisation as such in a case study research with a pre-set deadline, without any pre-determined topics, seems unwise. This would most likely mean that the interviews would take longer time, a luxury unaffordable for this study.

Furthermore, the choice of respondents were actors from different business units and from multiple levels within the organisation involved in the process, so that findings would not be unilateral (a full list of the respondents included in this study can be found in Appendix 1). Moreover, in a process analysis there are sometimes multiple processes at the same level of analysis, for example firm level of strategy and technology development, which constitutes a need to understand the process from different levels (Pettigrew, 1997). Hence, in order to understand the full process of how innovations could enhance brand loyalty, it was clear that the respondents had to be people from the more operational part involved in the creation and implementation of innovations and people in charge of the different innovations, but also people working closely with customers, such as sales and customer service staff. This as loyalty is something in the minds of the customers, and the people actually trying to sell these innovations in a way that could gain loyal customers are therefore of importance for the understanding of the entire process.

Lastly, as mentioned in the object of study, during the interviews it became clear that there were people from other departments involved in the process, who furthermore should be interviewed in order to get the broader picture of it. Thus a snowball sampling approach was conducted, which according to Bryman and Bell (2011) is a sampling method where the researches uses the people already in the research process in order to establish contacts with others relevant for the research as such. It is a preferable method to use when it is hard to be accurate straight away with whom to interview (Bryman & Bell, 2011).

3.7 The Interview Process

As a semi-structured interview approach was opted for, it required an interview guide (which can be found in Appendix 2). It is referred to as a brief list of areas or questions (however, not too leading questions) to be covered during the interview, and is often used in semi-structured interviews (Starrin & Renck, 1996). Moreover, telephone interviews were conducted with all respondents. This is a more cost-effective interview technique compared to face-to face qualitative interviewing, and is argued to be more effective when it comes to sensitive questions as the interviewer is not being present, which if being the case could stress the respondent (Bryman & Bell, 2011). However, one drawback with telephone interviewing is that it is not possible to observe the non-verbal behaviour of the respondent, which could be of importance (Saunders, Lewis & Thornhill, 2009). Nevertheless, no particular drawback was seen with this type of interviewing technique, and it provided time and opportunity to

hold more interviews as well as the ability to redial the respondents when questions arose during the research process or when something needed to be clarified.

Furthermore, in order to be able to transcribe the interviews afterwards, a recorder was used and notes were taken. It is important to transcribe the interviews in order to really understand not only what people say, but also in the way they say it, as that could elucidate certain things to some extent (Bryman & Bell, 2011). The respondents were of course well informed about this beforehand, and all participants consented. Important is also that the interviews take place in a quiet and private setting, free from any disturbance, so that any noise will not affect the recording, and also that the respondent do not have to be worried to be overheard (Saunders, Lewis & Thornhill, 2009). As this was sought after during all interviews, it was not the case in all of them. During some of the interviews it was clear that the respondents had difficulties trying to find a quiet place, however, this was not seen as anything that affected the interview as such. Hence, all in all the interview process proceeded without any particular issues that could affect the research, and the interviews provided a clear understanding about the internal innovation process in the organisation being studied. Additionally, important to mention is that the interviews were held in Swedish in order to get as rich and detailed findings as possible, which means that any quotations or similar in this study have been translated into English.

This concludes the reasoning regarding the object of study, the data needed to answer the propositioned research questions, the ontological and epistemological standpoints, as well as the reasoning behind the choice of method. Additionally, it is important to understand how the data was analysed in order to pinpoint the trustworthiness of the method as such, to stress the ethical and political aspect of the research, as well as to discuss the limitations and weakness of the study.

3.8 Data Analysis

In order to analyse the collected data, a grounded theory approach was chosen. It is today the most widely used framework for analysing qualitative data (Bryman & Bell, 2011), and is defined as theory being derived from data that is systematically collected and analysed throughout the research process, where data collection, analysis and potential theory are closely related (Strauss & Corbin, 1998). As this study hopes to contribute with new theory within the research area, grounded theory appears as the appropriate approach for data

analysis. Moreover, the approach is iterative, meaning that data collection and analysis proceed simultaneously, which fits the iterative inductive approach opted for above. Hence, it is not only a strategy for the analysis of data, but also one for the collection of data as the analysis of the first data being collected shapes the next data collection process (Bryman & Bell, 2011), making it easier for the researchers of this study to gather all data needed to fully understand the innovation process in the organisation. This was very much the case in this study as the first, initial interviews yielded a better understanding of the innovation process which facilitated the following interviews with regards to topics to focus on.

This is in line with theoretical sampling, which is one of the main tools in grounded theory. It is a data collection process for generating theory where the researchers collect, codes and analyses the data in order to decide what data is needed next for the emergent theory (Glaser & Strauss, 1967). The authors of this research opted for this, as it enabled the continuous tracking of what new data that was needed for the intended emergent theory. Another key tool in grounded theory is coding, where data is broken down into categories that are given names, in order to more easily interpret and analyse the collected data (Bryman & Bell, 2011). Being a framework for both the collection and analysis of data, it helped throughout this research process since during the interviews it became apparent that some interview questions gave answers more in line with the first research question and others gave answers more in line with the second research question. This enabled the categorising of the questions in the interviews thereafter in a structured way, as well as that it enabled the categorising of the data in such a way that it facilitated for the analysis and conclusively for the discussions regarding the proposed research questions of this study.

3.9 Trustworthiness and Authenticity

In order to reassure and assess the quality of this study, trustworthiness and authenticity are used as criteria for evaluation. This is an appropriate set of evaluation as this criterion assumes that there can be several possible accounts and that there are no absolute truths about the social world (Guba & Lincoln, 1994). According to Guba and Lincoln (1994) trustworthiness is made up of four criteria: credibility, transferability, dependability, and confirmability. In order to ensure the credibility of the findings from the interviews, the authors of this study both ensure that the research is carried out in good practice as well as that the findings were repeated to the participants in the research process, something called respondent validation (Bryman & Bell, 2011). For this study, it meant that the impression of

the findings was repeated to the participants in order to ensure that the findings are understood and interpreted correctly, and also to reassure that mutual satisfaction is achieved between the researchers and the participants from the organisation.

Concerning transferability, in line with Bryman and Bell's (2011) arguments, the authors have aimed at producing a thick and rich description of the social world being studied. This in order to provide others with a "database" for making judgements regarding the potential transferability of findings to other settings. This has been done by providing an in depth description of the innovation process within the case company to give the reader as much information as possible to facilitate the understanding of the analysis. Furthermore, to ensure the dependability of the research, an auditing approach is adopted to ensure that records are kept during all phases of the process, in this case mainly interview transcripts. This is seen as a way for others to have access to the records, and thus ensuring that the procedures have been followed properly (Guba & Lincoln, 1994). Additionally, in accordance to Bryman and Bell (2011), as it is almost impossible to ensure complete objectivity in business research, the authors of this paper have tried to show that no personal values affect the outcome of the study, and that they have acted in good faith. Having a tutor who follows the research process will most likely reassure this to some extent.

When it comes to authenticity, Guba and Lincoln (1994) state some criteria that concern the wider political impact of the research as such. These are fairness, ontological-, educative-, catalytic-, and tactical authenticity. Fairness regards whether the research fairly represent different viewpoints of actors in the social setting (Guba & Lincoln, 1994), in this case being the internal innovation process in the chosen organisation. As this research comprises interviews with several people across different business departments and managerial levels, it could be argued to cover the perception of most actors involved, thus being fair in that sense. Regarding the other authenticity criteria, it is about whether or not the research helps members of the setting to understand the milieu as such, appreciate others viewpoints and evokes action to change (Bryman & Bell, 2011). Overall, this research aimed at making the members of the process aware of how the full process looks, and hopefully this lead to general improvements through better understanding or increased efficiency.

3.10 Ethical and Political Considerations

According to Bryman and Bell (2011) ethical considerations in business research regards issues such as how to treat the individuals and organisations on whom to conduct research, and if there might be activities where one as a researcher has to be extra careful. As this research investigates an organisation and individuals within the organisation, it is vital to make sure than no harm to participants is being caused. To ensure this, the respondents were asked whether or not they wanted to remain confidential, however no such request was made.

Furthermore, as interviews are used as research method, it is of importance to consider whether interviewees might find certain topics or questions disturbing. Beforehand it is hard as a researcher to have insight in which topics or questions that should be avoided, it therefore required the authors to treat each interview with a sensitive mind-set, and provide the respondent with an opportunity to withdraw, in accordance to Bryman and Bell (2011). This was not considered a major issue during the interview process. However, one respondent in particular had some doubts regarding what she could and could not disclose about the innovation process. Instead of pressing the issue the respondent was asked to only disclose things that with full certainty would not cause any problems. This did not have any significant impact on the work of mapping the innovation process as information about it was gathered from multiple sources, one of which was a high level manager with enough authority to disclose all the particulars needed.

Stressed is also the importance to make sure that the participants are informed about the research as such, and that they fully understand the process and purpose with this research (Easterby-Smith, Thorpe & Jackson, 2012). Therefore, each interview began with a brief introduction of the study, its purpose and what role the respondent played in the research process. Hence, transparency and honesty is of significance, therefore the respondents were informed that each interview was being recorded before the interview. If the researchers fully understand the ethical issues connected to the research, i.e. the ones aforementioned, it is argued that one better will acknowledge any possible influence on the nature of the relationship formed, and thereof on the data being collected (Easterby-Smith, Thorpe & Jackson, 2012). However, as all possible measures were taken in order to ensure an ethical and transparent research process, there are no apparent influences that have affected the data collection or the findings from the data.

Regarding political considerations, Easterby-Smith, Thorpe and Jackson (2012) argue that this is highly widespread in business research in general. Politics in this context is defined as the power-relationship between two parties; for this study that is the individuals involved, such as the authors, the supervisor, the respondents from the organisation, or the organisation itself. However, it is hard to see any real conflict of interest in these relationships other than the chosen organisation steering away from the research questions if that lies in its own interest. The only major, identified political consideration that was addressed during this research process was that of the case organisation wanting to "glorify" themselves as being more structured, and in a sense better, than they actually were. When doing interviews and not observations there is no sure way of avoiding this but as data was collected from both managers and employees, at least this ensured that the data was not one-sided from a manager perspective. As such, some employees were more critical of the innovation process than certain managers and thus providing a more realistic picture of reality. Therefore, apart from these potential aspects, this study seems somewhat free from political dimensions that would influence over the research design.

3.11 Limitations of Study

Important to be aware of is that no study is flawless, especially not on a postgraduate level. Some potential weaknesses of the chosen research method have already been mentioned throughout the text, but the main limitations will be elaborated and demonstrated here. Firstly, Van de Ven (1992) argues that in order to fully understand a process, the researchers should place themselves into the actors' roles and conduct observations. Mentioned is the necessity to observe how, when and why changes in the preliminary strategy occur. Furthermore, he states that it makes the researchers better equipped to see what actually is happening, and to discover hidden activities, since one will be closer to the activities. There is also the risk that in an interview the respondent might forget to talk about things they take for granted, but that might be of importance for the researchers (Bryman & Bell, 2011).

Therefore, an extensive observation covering the full process of innovation to brand loyalty, with all interactions and activities taking place, could perhaps have been a good complement to the chosen means of data collection. This would perhaps facilitate the understand of the process on a deeper level, by actually see the whole process with first hand. However, as mentioned, the organisational process being researched is rather lengthy and also quite extensive, ranging over several business units within the organisation. Also, as some of these

events already have happened it would be impossible to observe them. Furthermore, it would be hard for any research and any case to completely observe the entire innovation to brand loyalty process since the observers would then have to be at different places at the same time.

Also as mentioned previously, it is possible that the organisations as such, with its employees, might be biased in opinions and answers. That there is a risk of exaggeration of the results of the process, and how it works internally, in order to give a good impression. Furthermore, since this is a case study, the research might foremost be applicable to similar organisations as the one studied, and since the study has been conducted on an organisation in the Swedish market, the research might foremost be applicable to the Swedish market, or markets similar to this particular one.

However, this study assumed what Alvesson (2003) defines as a reflexive pragmatic approach towards the case company, case study as research design and the interviews performed. This means that the weakness of interviews as method is accepted and that the interview is seen as a complex social situation that offer many difficulties, some of which have been mentioned above. With this being said, Alvesson (2003) argue that being reflexive is important, but that it is equally important to not let relevance in discovering data be sacrificed for academic rigor. Thus, this study acknowledges the weakness of the research design, the possible bias of the interviewed respondents and the fact that they may be both unwilling and unable to provide a "true" description of reality but may still be able offer insight valuable to the exploration of the proposed research purpose. This limitation concludes the reasoning behind the choice of method for this study, and the following part of this thesis will introduce the case company, Fritidsresor AB, and how they work with the process of innovation.

4. The Case

In this part of the study, firstly a brief introduction to the case company is given as well as an in-depth description of their innovation process, this in order to facilitate the understanding of the analysis. The description is done through a compilation of all the interviews performed (an overview can be found in Appendix 1) to paint as fair description as possible from all areas of the company.

4.1 Fritidsresor AB, a Part of TUI Group

The case company Fritidsresor AB is chosen on the basis of its high theoretical relevance for investigating service innovations and brand loyalty. Fritidsresor AB (henceforth Fritidsresor) is, together with the Norwegian and Danish Star Tour and Finnish Finnmatkat, a part of TUI Nordic, subsidiary of the world's largest tourism company the TUI Group (TUI Group, 2015). The TUI Group enclose a total of 220 brands across 180 countries with over 30 million customers early (TUI Group, 2015).

Fritidsresor became a part of the TUI Group in 2000 but was originally founded in Sweden in 1961. It is today the largest tourism company in the Nordic countries with roughly 20 percent of the package holiday market (Fritidsresor 2016, Financial Facts). Together with its Nordic neighbours, Fritidsresor employs roughly 1600 people and had an annual turnover of around 12,2 billion SEK in 2014 (Fritidsresor 2016, Financial Facts). Being a package holiday company, service plays a key role in their business model as technological evolution has paved the way for consumers to book their own flight and accommodation through various travel sites online, making service a major differentiator.

In order not to fall behind, Fritidsresor has throughout the years tried to become pioneers of the business and constantly innovated in order to stay competitive. As an example, the company's airline was the first in the industry to be environmentally certified according to ISO 14001, and the company was also the first to introduce online service on destinations in its industry where holidaymakers could contact staff via telephone, sms or email before, during and after their holiday (Fritidsresor 2016, History). A continuation of this online focus of holidaymaking is the smartphone app "My Holiday" (Eng. Translation from Swedish "Min Semester") where customers can ask question to guides, find maps of the destination and get tips for excursions (Fritidsresor 2016, My Holiday). These innovations provide service, comfort and additional value for customers booking their holiday with the company.

The latest addition to these service innovations is the TUI Smartband. This is a wristband that can be used to open the door of the hotel room, shop at the hotels facilities and keep track of spending as well as manage the energy consumption of the hotel room by automatically switching the lights on when the customer enters the room (Fritidsresor 2016, TUI Smartband). All this by connecting the Smartband to the My Holiday app, offering a technological solution that provides additional service for the holidaymakers. This wristband solution is the only one in its kind in the world offered by a travel company (Fritidsresor 2016, TUI Smartband), and led to Fritidsresor winning the Digital Price at the annual 2016 Grand Travel Award, a travel industry gala (Travel News, 2016). So far the Smartband has only been tested on one destination and one hotel, pending further implementation.

4.2 The Innovation Process at Fritidsresor

Firstly, when it comes to the innovation process of Fritidsresor, the company have what is called a Strategic Roadmap that lists important factors that need to be developed both short- and long-term, working as somewhat of a strategic guiding light for innovations. This can include both major external factors such as the company entering a new market requiring new functions or it can be customer specific, such as consumers today to a large extent favour their mobile device instead if their laptop. Really all things that may require the company to innovate in order to stay competitive. This roadmap is thus constantly updated by several departments as well as being influenced by the Nordic Board, making sure that the overall company strategy is grounded in the decisions made. The Board in turn being in contact with the mother company TUI Group, securing consistency throughout the entire group.

The main unit responsible for developing new innovations for Fritidsresor is the Creative Department, working as a motor and facilitator together with the centrally London-based Mobility Hub, a common technical department for the entire TUI Group. The Creative Department handle all technological and creative changes locally and they try to work with innovation in an unconventional way. According to the head of the department, their way of working differs significantly from traditional ways of working with innovations such as having a special R&D department working in seclusion or appointing a project group to develop a specific innovation. Instead Fritidsresor work with so called 'Fast Prototyping', where innovations are continuously developed in sessions together with other departments of the firms, such as the Product Department, the Marketing Department or the Overseas

Department. This to ensure that a multitude of stakeholders are involved in the innovation process.

'Fast Prototyping' for Fritidsresor means working with innovation on the basis of two parameters, new available technology and potential value for the customer. More specifically this means that when working on a new function, the Creative Department together with other stakeholders pitch different ideas and then value them based on whether or not they are feasible technically, and on what kind of value this new function would bring to the customer in the end. This is done to not only develop innovations for the sake of innovating but rather to turn it around and look at it from a customer perspective, innovating from the outside in.

The goal is then to develop a quick version of the innovation, able to be tested within a few weeks of its inception. The innovation is subsequently tested live on a small sample of customers in order to measure their reactions, i.e. to get immediate feedback, and if the response is positive, the innovation is developed further and introduced to a bigger audience. This summary of the innovation process at Fritidsresor will naturally be further developed throughout the analysis part of the study, but keeping in mind how the innovation process look like will facilitate the understanding of the next part.

5. Analysis

In this part of the study the above-described innovation process at the case company is analysed by in turn answering the proposed research questions. Thus, the analysis starts with looking at the process through the theory on ambidextrous organisations and continues with looking at how the different drivers of loyalty are affected by various parts of the service innovation model.

5.1 The Ambiguity of Working with Innovation and Brand Loyalty

The first research question of this study is how can an organisation handle the relationship between the explorative and exploitative units when working with brand loyalty and service innovations? Naturally there is no one answer to this question but there is rather a plethora of different ways of working with these two constructs. However, analysing the case above offers at least one potential way of handling these seemingly contradicting demands.

5.1.1 Beyond Explorative and Exploitative Units

Discussed in the theoretical part of this thesis is the fact that there is no clear description of when or how an organisation should act ambidextrous (O'Reilly & Tushman, 2013), but rather that working with exploring new innovations whilst still focusing on exploiting current customers and markets should not be competing activities (Chen & Katila, 2008). Looking at the case company, Fritidsresor seem to lack a clear innovation strategy and neither is there an outspoken idea of the organisation being ambidextrous in its approach. However, this does not mean that the company is not working this way practically. As the theory of ambidextrous organisations argues, what define these kinds of organisations more than anything else is the fact that there are dual, non-competing, structures in place that allow for simultaneous exploration and exploitation (Chen & Katila, 2008).

What can be deduced from the above presented innovation process at Fritidsresor is that the main unit working with service innovations locally is the Creative Department, in close contact with the centrally placed Mobility Hub in London. These two units play the same role at different organisational levels, enabling the company and group to develop both major and minor innovations. At first sight these two departments would appear to be a perfect fit as the explorative unit, heading the innovation development of the company, whilst other parts of the company, be it Marketing, Sales or Overseas etc. are more concerned with the exploitative part of the business.

Although mainly focused on innovations, the Head of Creative Department, Magnus Westerberg (interview, 2016-05-02) disputed this notion of separation that his department is working solely with exploration in innovations and other departments solely with exploitation in for example loyalty. He argued that this view on division of labour within organisations is an out-dated one. Instead he emphasised that his department may be a motor or facilitator for innovation but that it is important for all departments to contribute to the process of innovation development.

The fact that there is more than one department contributing to the innovation process becomes even more apparent when speaking to Eric Selin, Customer Center Manager (interview, 2016-05-02), on the role of the Sales Department in the innovation process. He argued that his daily work is split 50/50 between working with the operational side and handling strategic foresight, especially regarding service innovations through technological improvements and mobility solutions;

"We look a lot at the various trends with the consumers and across the business … and we want to follow these trends, to make sure we lead the way".

Selin continued his reasoning on innovation by mentioning the importance of the frontline staff when finding new ways of delivering service as they often receive comments and ideas from customers as well as emphasised the importance of co-operation with other parts of the organisation to realise these customer-provided insights.

The same goes for the communication department, perhaps traditionally not the first department to be associated with innovation in a company but rather usually viewed as a reactive one, working as an instrument for, or a voice of, the company. However, Mathias Bergendahl, the Nordic Head of Communications (interview, 2016-05-05), claimed that they to play a vital role regarding innovations and are often the ones bringing forth new ideas;

"Yes absolutely, we are often involved in new developments and initiatives. When you develop something you have to make certain that it is easily communicated … and we are often involved in the very first steps, where we bring input."

Naturally there is an inclination for the Head of a department to accentuate their own role in a strategic process such as this one. However, what these comments show is that there is more

to the innovation process at Fritidsresor than just having an explorative unit that handle the innovation work, leaving the rest of the company to work with exploitative, business-as-usual activities. By this regard, the theory of ambidextrous organisations seems too rigid and divided, at least to fit Fritidsresor's way of working with innovation. But seen as it is just a theory and a clear description of the concept is lacking, this does not rule out the possibility of looking at the company from an ambidextrous perspective.

Retracting to the innovation process and Magnus Westerberg's exposition (interview, 2016-05-02) on his department being the driving force behind the company's service innovations, he claimed that this is only made possible through the concept of 'Fast Prototyping', explained earlier, as it allows for input from a multitude of stakeholders;

"This [Fast Prototyping] is almost a complete opposite of the classic Swedish approach to innovation where an inventor sits in his chamber and devices a fantastic idea that will eventually lead to the development of a new product or service."

Instead he argued that 'Fast Prototyping' offers a quick trial and error process that allows for more things to be tested and integrates all parts of the company in the continuous development of new innovations. By including more stakeholders in new developments, and testing them live on customers, Westerberg claimed that it is easier to avoid a common problem of service innovations, namely to innovate inside-out. Instead, by including departments in the innovation process that work closer to the customer in their daily work, Fritidsresor is able to turn the tables and innovate with the customer in mind, from the outside-in. These thoughts highlight the importance of not only focusing on pushing technology on to the market through R&D, but to also work with market pull through customer orientation as suggested by Möller, Rajala and Westerlund (2008). Elin Sjöberg, Business Owner of the app My Holiday (interview, 2016-04-29), summarised these thoughts perfectly when being asked how it is decided what to develop in the app;

"Really everyone working at the company is a stakeholder that can come to me and wish for things to happen with the app."

Also Ann-Louise Ehrl (interview, 2016-05-02), Business Responsible for the overseas Guide Online service concurred with the importance of innovating with the customer in mind, and that this can only be done by actually including those that interact directly with the customer.

Especially since much of the service that the company actually provides takes place at the various destinations around the world. She explained her view on the innovation process and the involvement of various stakeholders, in this case the staff working overseas;

"There has to be a discussion and a conversation with the overseas organisation that perform and work with the Guide Online system in order to refine the experience for the customer. So yes, I would very much say that different parts of the company are involved in the conception of a new innovation."

To put these findings in relation, Fritidsresor's way of working with innovations on multiple points confirm some of the theories previously presented on service innovations, namely that service innovation is no longer a linear, sequential process but rather constantly on-going (Chesbrough, 2011). It also verifies the notion of innovation not being the result of a single-department effort but instead being a multi-divisional concoction across the organisation (Stevens & Dimitriadis, 2005). Once again their way of working also questions the ambidextrous organisation theory of clearly separated explorative and exploitative units. Instead it seems that everyone is working with innovation, and everyone is also working with loyalty.

5.1.2 Innovating Resource Efficient

Another advantage of working this way with innovation is according to Magnus Westerberg (interview, 2016-05-02) the economical use of resources in the innovation process. Bearing in mind that one of the major issues with ambidextrous organisations is the division of resources among units, that tangible efforts in cost saving or efficiency is often given priority before uncertain, intangible innovation developments (Sarkees & Hulland, 2009), i.e. the resource division is slightly tilted in favour of exploitation. Using Fritidsresor's way of working with innovation allow for a resource efficient innovation process by collecting input from departments with customer insight, testing it live and then analysing the outcome prior to launch. This means that before a prototype becomes a real innovation, it has to pass through this test that determines whether or not the customer wants it, Westerberg explained;

"…if no one wants to use it, then there is no idea of developing it further, but at least we have learned that, and we have learned it cheap. That is the idea of Fast Prototyping, to fail fast."

Westerberg continued his reasoning with explaining that any major launch of a new service requires large development teams and is often resource heavy. With this 'fail fast' attitude, he argued that the company make sure that full-scale resources are used for the right things. In this way, innovation becomes not an exception taking place in seclusion, away from the rest of the daily business, but rather a day-to-day activity that becomes a natural step in the normal production.

When developed, the Smartband was once again a good example of this resource efficient way of working with innovation. Done with a minimum amount of effort and resources, the initiative came from the Mobility Hub in London, where they needed a market to test it on and they needed it quick. This meant that Elin Sjöberg, Business Owner of the app My Holiday, without any large project group behind her had to make sure that everything worked for the Nordic market on a tight deadline. Sjöberg (interview, 2016-04-29), admitted it to be far from ideal to work with such a short deadline as a couple of weeks for this kind of project, but were in the end happy with the outcome. She explained that a full implementation is costly and quite risky;

"What it takes is to change all the locks on all the hotel doors, so it will easily render large costs. That is why we wanted to do a quick pilot, to see if it is worth bringing forward to other hotel chains."

What the 'Fast Prototyping' way of working shows is that it is easier to handle these somewhat conflicting demands of innovation and loyalty from the company perspective if the innovations are not large, uncertain, and costly projects. Working this way would mean that those in charge are spared from constantly making tough decisions under high uncertainty by including the innovation process in the daily work with limited resources. Then there does not have to be an "either-or" situation, but in fact it would allow for simultaneous exploration and exploitation.

Looking at the discussion above, it would appear that the research question proposed in the start of this thesis on how to handle the ambiguity of working with service innovations and brand loyalty is not a particularly difficult one. This is naturally far from true, working with both exploration and exploitation simultaneously provides ample challenges for companies and does so for Fritidsresor as well.

5.1.3 Top Management Support Wanted

During the interviews of this study it became apparent that some respondents were frustrated over the lack of a clear innovation strategy and Top Management support. This lack of clear strategy seemed to hinder both the development and the implementation of the innovation throughout the company.

When discussing the Sales Departments role in the innovation process, Customer Center Manager Eric Selin (interview, 2016-05-02), said he is overall positive about the way the company works with incorporating multiple stakeholders in the innovation process, but the lack of strategy makes it difficult to handle all the ideas in a good way;

"Internally between the departments there are a lot of limitations for the innovation to go all the way. From inception of the innovation to the customer, and the experience the customer receives, there we have a lot to work on. I am positive about the work we do considering everything, but there is a long way to go for sure."

Also Elin Sjöberg (interview, 2016-04-29) was reserved when talking about the management of innovations and new service development. When discussing the process of developing the Smartband solution she felt as though she had to fight hard to get both time and resources available, as there is no real structure on how to work with innovation, even though the idea came from a group level;

"Most probably we will have a better working method around this in the future, but I would not mind having a strategy on innovation, something to fall back on".

When reviewing the theory on ambidextrous organisations, O'Reilly and Tushman (2004) stress the fact that the explorative and exploitative units must be tightly linked through Top Management in order to allow for cross-fertilization among units, for the sharing of resources and expertise. Considering the two statements above, it is hard to argue that this is the case with Fritidsresor. In saying this, Fritidsresor is not completely without the strategic foresight of its Board. As previously discussed, the Board is highly involved in the Strategic Roadmap that in many ways govern the innovations developed throughout the company.

Ann-Louise Ehrl, Business Responsible for the Guide Online service (interview, 2016-05-02) described how the transition of Guide Online from being an sms and email service to a fully

digital solution, incorporated in the app My Holiday, was a direct result of Top Management involvement;

"The decision was taken from a Nordic perspective, our Nordic Board decided it was a vital functionality, very important if we were to focus on mobile. So in a way it is a decision with the product owner, but it is synced with the Nordic Board, it is more or less a co-operation"

Staying on the case of digitising the Guide Online service, Ehrl explained that this has been a highly successful innovation from the very beginning, almost ten years ago. The key though has been to always update and refine the service with new functions, confirming that organisational ambidexterity is about coping with the necessary transitions in a market whilst not losing track of what created the success in the first place. As Ehrl commented, the customers are very happy with the digital service that the company provides and Guide Online is the core of this service.

What this example shows, and what Gibson and Birkinshaw (2004) stress as an important aspect of ambidextrous organisations is the fact that even though the units of exploration and exploitation may be separated, or at least that they are in theory, the all have to be aligned and work towards the same ultimate goal. Arguably this requires some form of co-ordination and this is where the Top Management plays a vital role. As the innovation process becomes more complex by involving many departments, all with their own agenda, it is easy for the deliverance to be hindered. This is well exemplified by Eric Selin's statement above where he feels that the company has a way to go still.

By aligning the objectives of the explorative and exploitative unit, it is also easier to transfer a new innovation into the existing business. Looking at the Smartband solution, it was developed to fit into the existing business strategy of achieving customer satisfaction. There were also hopes that it would lead to increased spending and other benefits, but the main idea was always to innovate with the customer's best interest in mind. Elin Sjöberg (interview, 2016-04-29) discussed her view of the Smartband solution in relation to an overall company strategy;

"Well the main purpose of the Smartband was to investigate what was possible to do on the market, to quickly get it into place, in order to see the value created. The main purpose was to

facilitate for the customer. If that meant that they spent more, well that is of course a plus, but our value, that is a different business case all together."

Despite her reservations regarding the overall strategy of the company and innovations, Sjöberg was positive for the future. She expressed that there is a sense of change in the company, that there are high ambitions on a board level to be innovation-strong and to prioritise it more internally. She said that it needs to start from the top;

"When there is a clear strategy from above it is so much easier to get things done, both in terms of budget, priority and as a rallying point. Having a board that is clear with where we want to go, so that we have something to live up to, that would be good. But a lot of things are happening ... I feel that the winds of change are blowing."

And perhaps this is what is needed. As Henard and Dacin (2010) points out, when firms consistently display signs of innovativeness, the firm becomes relevant and the customers remain loyal. Maybe the shift in mind-set from a Top Management perspective will help achieve this. When units and objectives are aligned, and as the Top Management give a strategic focus that prioritise innovation, this might alleviate both the skewed division of resources in favour of exploitation, but also give the company a sense of direction.

This concludes the first part of this analysis and as the discussion has shown, the very notion of regarding innovation and loyalty as contradicting demands that needs to be managed by separated units must be revised. Instead, a close-knit co-operation might allow for a resource lean innovation process that is facilitated by a clear strategy, supported by Top Management. However, this first part does not give any answers to how the various parts of the innovation process might affect the different drivers of brand loyalty, which is thus the focus of the next part of this study.

5.2 Linking Service Innovation to Brand Loyalty

Bearing in mind what has been discussed above, it is relevant to delve deeper into how the various parts and stakeholders of the service innovation process affect the different driver of brand loyalty, which is the second proposed research question of this study. This is done by looking at the different drivers in isolation to device where the biggest influencers of the process lie, in order to facilitate the understanding of how a service company like Fritidsresor work with achieving brand loyalty through service innovations.

5.2.1 Perceived Value

The first driver of brand loyalty in the theoretical framework is *Perceived Value*, i.e. the value that customers feel the innovation provides for them. Discussed in the theoretical part is that value creation is dependent on the degree of innovation as well as the readiness of the consumer (Möller, Raja & Westerlund, 2008). Thus, Fritidsresor's highly technical service innovations are not a guaranteed success if the customers exposed are not in-tune and able to adopt it. However, it was revealed during some of the interviews that the Nordic customers expected technological development, and were ready for it. Ann-Louise Ehrl, Business Responsible for the Guide Online service (interview, 2016-05-02) mentioned that Nordic customers expected further technological development by the organisation, for example in terms of new features inside the application My Holiday.

As technology is argued by Edvardsson and Olsson (1996) to be important in order to create favourable conditions for better services, one can see the connection with the technological environment as an exogenous factor in service innovations and perceived value. For example, Elin Sjöberg (interview, 2016-04-29) explained that it is well known that Nordic customers are tech savvy and often bring their smartphone during their holiday, and stated in the interview that;

"We have a technological interested customer base to test [our products] on."

By this regard, Fritidsresor is well aware that their customers are ready to assimilate the new service technology, and there seems to be a balance between the organisation and the customers, which is a crucial aspect in the establishment of value creation.

Moreover, what has been emphasised in most interviews was that the innovations first and foremost were created in order to facilitate for the customers, before, during, and after their trip. Hence, it appears obvious that Fritidsresor wants to provide value for its customers, and that value is their main focus with its innovations. Regarding the TUI Smartband, as discussed above, the main purpose was to make it easier and more convenient for the customers at the destination. Even though it could be seen as a strategic marketing decision that could bring attention to the company, Mathias Bergendahl (interview, 2016-05-05) Head of Nordic Communications argued that the main reason behind the innovation was the customer benefits it provides. And when they compiled the results, it revealed a high level of satisfaction from

the customers, and that most people would recommend it further, which indicates the notion of perceived value.

In terms of the app My Holiday, Fritidsresor constantly tries to develop and add new features that provide value for customers. One example of this was when they picked up on the fact that people are getting more concerned with health and training, and therefore added a fitness program as a feature in the application. Fritidsresor want people to get value out of the application even when not being on, or planning, their holiday, while at the same time answering to the markets needs and wants. The application furthermore provides the ability to stay in contact with the hotel guides whenever and wherever they want. This was something that Ann-Louise Ehrl (interview, 2016-05-02) accentuated as a vital aspect;

"Our customers are incredibly happy with our digital service [...] they think it is convenient to ask questions whenever they want to"

The overall customer satisfaction is also confirmed by Linda Netterström, (interview, 2016-06-05) Service Level Responsible at the Customer Center, when she stated that as she speaks directly to customers on a daily basis, she constantly receives praises on the app and its functionality. This somewhat indicates that Fritidsresor do things with their customers in focus and as their customers want to be more digital and flexible, the innovation reflects this, creating the notion of perceived value for the customers. This is neatly summarised by Magnus Westerberg (interview, 2016-05-02);

"We cannot create retention if we do not create services where the customers feel that 'wow, this was better'."

This means that by offering the Smartband and the application for their customers, Fritidsresor enable their customers to focus more on what they have actually bought, namely a holiday. And in doing so, providing what Raja et al. (2013) claim to be key when developing new service innovation, increased availability of the core product or service when the customer wants it. According to Mathias Bergendahl (interview, 2016-05-05) Head of the Communication Department, Fritidsresor also stress the importance of presenting the value their innovations provide in their marketing efforts, to reveal the unique selling propositions and the customer benefits, which may also facilitate in affecting the driver perceived value.

As Fritidsresor creates technologically focused service innovations that customers expect them to, as well as being aware from questionnaires and by following trends what the customers actually demand, it is clear that the consumer is an important exogenous factor in regards to service innovations. As stated in the theoretical part, previous literature in the area (e.g. Stevens & Dimitriadis, 2005; Furseth & Cuthbertson, 2016) argue that the consumer could provide valuable information for an organisation, and that service innovations therefore should incorporate them. Moreover, as Fritidsresor's consumers more or less demand new technology, it is essential for the organisation to follow these trends, and to keep up with the technological environment as such.

Thus, what can be seen from Fritidsresor's way of working with innovation is that there is clear connection of how the *Technological Environment* as such can contribute to *Perceived Value*. By taking into consideration the technological environment in which the customers reside, and by providing innovative technology that is both expected and desired by the market, one creates value by paring the innovation with the readiness and expectations of the consumer, illustrating the importance of balance between technology push and market pull as proposed by Möller, Rajala and Westerberg (2008). Moreover, there is a link between how *Consumers* could be an influencer of this *Perceived Value*. By taking their demands, both needs and wants, into consideration when innovating, value is created.

5.2.2 Perceived Quality

Regarding the second driver of brand loyalty, that of *Perceived Quality*, which is the quality that customers believes the innovations provides, it has already been stated that Fritidsresor takes customers opinions and demands into consideration. Magnus Westerberg (interview, 2016-05-02) Head of Creative Department emphasised that Fritidsresor always want to improve the quality in their offerings, something that also Elin Sjöberg, Business Owner of the app My Holiday (interview, 2016-04-29), addressed in another interview;

"... [here we have] looked at how we can meet our customers and the markets demands, and how to improve existing product offerings..."

giving at least some indication that Fritidsresor have realised the importance of offering new and high quality products. As mentioned in the theoretical discussion of this thesis, a key to satisfying customers is to listen and customise solutions after their specific needs (Chesbrough, 2011), which clearly is something that Fritidsresor takes into consideration.

Moreover, Magnus Westerberg (interview, 2016-05-02) explained that as the company adapted their booking feed to a mobile version since customers demanded more mobile-friendly products, it becomes obvious that they try to enhance the quality of their offerings. This exemplifies the prominent role that the technological environment plays in developing service innovations. As customers nowadays demand more customised products, they expect organisations to keep up with technology, even though this might be outside the scope of the organisation. As previously mentioned, Froehle and Roth (2007) stresses the fact that technology is not a means in itself but should instead be used to create better services, i.e. services with enhanced quality that constantly try to evolve and adapt to new and constantly changing market demands.

Furthermore, as the smartphone application provides customers with the possibility of reaching out to Fritidsresor and their guides at destination whenever and wherever they want, this is in line with Furseth and Cuthbertson's (2016) thoughts on technology's part in innovation, where they state that customers may interact with an organisation both physically and electronically simultaneously. As Mathias Bergendahl (interview, 2016-05-05) mentioned that Fritidsresor noticed that many customers want to interact digitally today, and that they since have gotten a lot of messages and positive feedback on social media regarding how fast they respond to customers, this is something being perceived as quality for customers. He also saw this as an important relationship builder with customers.

Fritidsresor also follow competitors and their offerings in order to improve and offer the best products in the markets, which accentuate the role of competitors in the service innovation model as they can force a company to innovate in order to not be outcompeted (Stevens & Dimitriadis, 2005). Elin Sjöberg (interview, 2016-04-29) stated that;

"We are aware of what is happening at our competitors, which might mean that we accelerate the process."

One example is that Fritidsresor look at competitors' delivery speed, and use that as a benchmark for how to speed up theirs, as this is something the market then expect. Sjöberg also mentioned that what is happening in regards of mobile applications in general might have an influence, as these are things the customers expect an organisation to deliver. She gave an example of that the different airlines nowadays have very sophisticated check-in systems,

which Fritidsresor is yet to have. This confirms Porter's (2000) idea on competitors driving the productivity and innovation propensity in an industry.

Hence, by listening to the markets needs and wants, and by constantly following and compete with trends, *Consumers* as an exogenous factor could contribute to *Perceived Quality* for an organisation. Moreover, looking at and following the technological environment in general, and what direct and indirect competitors are doing, set the bar set for what an organisation is expected to deliver. If one manages to deliver what is expected, the *Technological Environment* can be a creator of *Perceived Quality*. Lastly, by following industry trends and by keeping pace with others, *Competitors* as exogenous factor may also have a direct impact on the *Perceived Quality* of an organisation.

5.2.3 Switching Cost

The next driver of loyalty from the service innovation framework is *Switching Cost,* which is concerned with the relationship between consumer and organisation, and whether or not the consumer aims to maintain or terminate the relationship. This depends on how costly it would be for the consumer to switch to another brand. This could very well be linked to the value or quality that consumers perceive the organisation provides, being analysed above, or the fourth driver Trust as well as the fifth driver Corporate Image & Reputation*,* being analysed next. However, as previously discussed, any interrelationship between different drivers of loyalty lies beyond the scope of this study and will thus not be examined further.

Instead, Elin Sjöberg (interview, 2016-04-29) stated that the previous focus of the smartphone application has mainly been on existing customers, or rather the ones that have already booked their holiday, but this has now changed;

"...a new strategic focus is to manage the entire customer journey from pre-purchase, to during and after their holiday in the application, giving the customers a reason to keep the application after the holiday".

This is something that arguably would enhance the customers' perception of not only the application itself, but also of the organisation as a whole. Sjöberg gave an example of this when she talked about the fitness program (mentioned above), and that Fritidsresor provides additional features and functions, extending over more than the trip alone. Providing

additional benefits and by staying current to customer trends is something that will enhance the switching cost.

Furthermore, as social bonds created towards a brand and its staff is to be regarded as a switching cost (Aydin & Özer, 2005), the application could add to this. For example, according to Ann-Louise Ehrl (interview, 2016-05-02), the app My Holiday enables more direct and personal communication with the guides at the destination. This means that Fritidsresor's customers gets easier contact with the right people, in a more convenient and personalised way, enhancing the cost of switching to a competitor. This could therefore facilitate for having both the endogenous factor of people as well as that of assets as part of the service innovation model, as the accessibility of people and the intangible assets in terms of application software could enhance the switching cost. Importantly, as switching cost can be defined both in monetary and psychological outlay, it is noteworthy to mention that no monetary figures have been taken into consideration in this study. The application Fritidsresor provides is free of charge and there is so far no extra cost for the Smartband as of yet.

Accordingly, by having the access to meritorious intangible assets, in this case application software, it is possible for organisations to increase the cost of switching to another brand. This conveys a connection between *Assets* of the innovation model and the loyalty driver of *Switching Cost*. Moreover, by being more personally available at a more convenient time and place, *People* as endogenous factor is an important factor to consider in order to enhance the *Switching Cost*.

5.2.4 Trust

The fourth driver of loyalty, *Trust*, concerned with to what extent consumers believe the organisation's offerings will result in a positive outcome or not, is something Fritidsresor strives hard to achieve. Mathias Bergendahl (interview, 2016-05-05) Head of Nordic Communications argued that they try to deliver as much information as possible in order for customers to feel trust and security, which ultimately could result in loyalty. He gave an example that if something happens at, or close to, a destination, people want to be informed. He stated that Fritidsresor have built a great legacy around themselves and their brand when it comes to both proactive and reactive work with information. By being fast and accurate in terms of information, they hope customers will know that even if something happens, they are secure with Fritidsresor and that they can trust them, which he argues is an important pillar in their work towards loyal customers.

Adding to this provision of information is the service and information Fritidsresor provides with their application. Linda Netterström (interview, 2016-05-04) Service Level Responsible at the Customer Center stated that people want to know a whole lot before booking a trip, and by providing all kinds of information the feeling of cognizance is created, both before and during the trip. Moreover, Mathias Bergendahl (interview, 2016-05-05) stated that;

"What is an important part with our application focus overall is to make it better for the customer, to make information more accessible. To simply make the journey easier, and above all, provide information close to the customer. That is the main idea with it."

All this could very well reduce the cost of taking a risk, which is an important builder of trust (Rundle-Thiele & Bennett, 2001), and here one can see the importance of having a strong brand able to deliver trust when needed, and thus a relationship between assets in the service innovation model and trust as a driver of loyalty is revealed. Thus the brand as an intangible asset is important for building trust and therefore for the innovation process as whole.

However, according to Eric Selin, Customer Center Manager (interview, 2016-05-02), Fritidsresor still have work to do when accentuating the brand as a mediator of trust. As mentioned in the theoretical part, the creation of trust is important both before and after a purchase (Chiou, 2004), and a positive outcome of this could lead to a continuous process between consumer and organisation (Aydin & Özer, 2005). Selin (interview, 2016-05-02) made clear that Fritidsresor still have lots to do when the customer has returned home after the trip, which he argues is where their biggest challenge lay. According to him, Fritidsresor wants the customer to recognise, know and feel that they have travelled with Fritidsresor as a brand;

"It is about recognition; we want to create our customers in such a way that they turn loyal towards us. The customers should not feel any insecurity [about which brand they travelled with] when getting back from the holiday."

This last quote at least gives some indication of that Fritidsresor is aware of the importance of creating trust in order to build a loyal customer base, and that they are trying to improve where needed.

Furthermore, Selin (interview, 2016-05-02) pinpointed that they have solely received positive feedback after the pilot test of the Smartband, much due to the practicality and technical simplicity, for example with limits of how much you can spend, which was highly appreciated by the main target group, families. Adding to this, Linda Netterström (interview, 2016-05-04) Service Level Reponsible at the Customer Center argued that it is the simplicity, safety and the control that are the main benefits with the Smartband. As a customer you are more aware about your expenses while at the same time being free from having to bring your credit card. Eric Selin (interview, 2016-05-02) further imprinted that the customers had a big role in this positive outcome. This since the Smartband pilot got spread on social media by the customers, and he argued that social media has an extremely big influence overall today. As customers spread the message themselves in a positive way, it will enhance people's trust towards the company as word of mouth and reviews are highly important, driving loyalty with already existing customers as well.

Thereof, by having a strong brand, associated with trust, an organisation can use that with regards to its innovations. To associate the innovation with the brand, and therefore stay true to the organisation's core values and strengths, trust can be created. Thus there is a relation between *Assets* in the service innovation model, in this case the brand as an intangible asset, and *Trust* as driver of loyalty. Moreover, by innovating with the consumer in mind, it opens up for the creation of confidence and reliance, which can result in trust. Therefore, there is a link between the *Consumer* as exogenous factor and the creation of *Trust*. Consequently, service innovations as such can create trust, and by building on existing offerings customers feels secure, leading to the creation of loyalty.

5.2.5 Corporate Image & Reputation

The fifth and last driver of loyalty recognised and emphasised in this study is that of *Corporate Image & Reputation,* which is the impression different stakeholders have of an organisation. As Fritidsresor wants to be pioneers in the industry, and to be one step ahead technologically, they also want to communicate this towards customers. Mathias Bergendahl (interview, 2016-05-05) Head of Nordic Communications stated that it is important to reach out with the message of having new technology, and new, ground-breaking, innovations for the industry. He made clear that they want to be pioneers, and that they in some sense also are, which then is important to communicate. For example, Fritidsresor's smartphone application was launched before competitors' equivalent (Elin Sjöberg, interview, 2016-04-

29), and Eric Selin (interview, 2016-05-02) stated that they are very mobile and global in the technological development within the industry, which his department often pinpoints to customers.

Moreover, mentioned above is that customers expect the organisation to keep up with recent technological and mobile trends, and a strong brand with an image demonstrating innovativeness could be a highly important intangible asset for an organisation to have. To leverage this in a favourable way could, as mentioned in the theory, be a great potential competitive advantage in the service industry (Furseth & Cuthbertson, 2016). Also, as customers more or less demand Fritidsresor to keep up with recent trends, an appropriate image that also reflects customers' desirable self-image could enhance loyalty towards the brand, according to the arguments put forth by Tepeci (1999).

Furthermore, derived from the interviews was that the innovations have opened up for a new target group, which has led to the proliferation of a strong brand by having a unique product. This is internally seen as a momentum, as Fritidsresor sees the building of a strong brand as highly important. Eric Selin, Customer Center Manager (interview, 2016-05-02), stated that the smartphone application was not solely created for the practicality or the mobility it provides, but also for creating a desirable image;

"It is very much due to that we want to strengthen the entire brand, that we as a company are not satisfied, but constantly want to find new things and new inspiration for our current and future customers"

This is supported by Elin Sjöberg, Business Owner of the app My Holiday (interview, 2016-04-29), who stated that in order to be able to prioritise and live up to something, it is sometimes needed to create the story about oneself first. Hence, to be pioneers and to have that kind of image is something Fritidsresor have desired and therefore also fulfilled.

Eric Selin (interview, 2016-05-02) also added that the reactions Fritidsresor received after the release of the Smartband was that it was practical, flexible *and* that it provided a strong image, which was seen as something very positive. A favourable brand image is argued to increase the satisfaction of the purchase (Gounaris & Stathakopoulos, 2004), and by having a good reputation in terms of quality; the perceived quality is likely to increase (Tepeci, 1999). This will most likely enhance the loyalty towards the brand, and as Fritidsresor seems to have

understood the importance of having a good image and reputation, in which their technologically focused service innovation contributes, its role as a driver of loyalty in the model is fortified.

Thus, to be in the front edge in regards to the technological environment is important for an organisation's image as customers expect them and wants them to be so. Therefore, it is important to communicate this, and by doing so creating a desirable image. Accordingly, the *Technical Environment* as such plays a role for the loyalty driver *Corporate Image & Reputation*. Moreover, by having consumers' desirable self-image and general trends in consideration when innovating, it helps creating a suitable image. Hence *Consumers* as such can influence this driver as well. Additionally, to add the *Intangible Asset* of a brand when innovating can be seen as a guideline and thus be able to build a strong *Corporate Image* in the eyes of the consumers.

This concludes the second part of the analysis and how Fritidsresor works with the proposed drivers of loyalty. Overall it appears obvious that technologically focused service innovations within the service industry could very well enhance the loyalty towards a brand, and Fritidsresor seems to be conscious about this. Eric Selin, Customer Center Manager (interview, 2016-05-02), confirmed that building bridges and creating loyalty are necessities for being a successful organisation. He argued that it is important to constantly find new inspirations for customers, to come up with new and innovative solutions. As an example, by enabling the entire booking process in the smartphone application, Fritidsresor hope customers downloading the application before the trip will have a great experience with it, and thus be interested in coming back. Elin Sjöberg (interview, 2016-04-29) stated;

"The hypothesis is to encourage retention, that the customer will be returning, i.e. stay loyal, through the application."

Adding to this is Eric Selin (interview, 2016-05-02) who argued that even though Fritidsresor still have a lot to work on when it comes to the creation of brand loyalty, by being leaders of service innovations they will enhance the loyalty towards the brand. All this can once again be linked to Magnus Westerberg's (interview, 2016-05-02) comment above that;

"We [Fritidsresor] cannot create retention if we do not create services where the customers feel that 'wow, this was better'."

Finally, Mathias Bergendahl, Head of Nordic Communications (interview, 2016-05-05), concluded that the reason why the industry of package holidays has not died is that it has constantly been innovative, and that it is a constant journey for Fritidsresor to look out for customer needs and wants, something that never stops. Hence, Fritidsresor as an organisation is well aware that service innovations, if pushing the right drivers, could enhance the loyalty towards the brand. However, as indicated in the first part of the analysis, this is dependent on an effective management of the *Organisational Structure,* allowing for the proper division of resources and facilitating the consolidation of work towards a common goal. A prerequisite for successful work with innovation for brand loyalty.

6. Conclusions

The purpose of this study has been to investigate how service firms work with brand loyalty through the concept of service innovation. Simultaneously, in order to go about investigating this purpose a number of research questions have been proposed, namely how an organisation can handle the relationship between explorative and exploitative units as well as how the characteristics of service innovation affect the different drivers of brand loyalty, both on a theoretical and practical level.

Firstly, what can be deduced from the initial analysis part is firstly the fact that a key factor when working with exploration and exploitation is that an organisation does well to not separate these units completely but rather aim at involving all parts of the organisation in the innovation process. This allows for the combining of internal technological capabilities as well as a customer centric, outside-in, way of working with innovations that take the customers' needs into account. This is vital since they are, as previously discussed, ultimately the ones that determine whether or not the innovation will be a success.

The involvement of a multitude of stakeholders also provide the advantage of not forcing a decision between one or the other, of either working with exploring new markets and innovations or exploiting the current business. As the case company provides evidence that by failing fast and testing innovations on a small scale, it incorporates innovation in the daily work. This spares those in charge of making tough decisions under high uncertainty, which allows for simultaneous exploration and exploitation. However, this is largely dependent on a clear aim from a Top Management perspective as involving the whole company without an outspoken strategy might lead to somewhat contradicting demands and hinder both the development and implementation of the innovation. Furthermore, working with a clear strategy throughout the company may also facilitate the transition of an innovation in becoming a part of the daily exploitative business, as the explorative unit has good insight of how the day-to-day operations work and where the innovation will fit.

With regards to the effect on the various drivers of loyalty from the different parts of the service innovation model, it is clear that both the drivers of Perceived Value and Perceived Quality is highly dependent on the readiness of the consumer as well as other competitors in relation to the technological environment surrounding the organisation. Furthermore, Perceived Quality is also closely related to the potential existence of an expectation-delivery

gap as competitors may set the bar for an industry wide expectation of quality that affect whether or not the customer chose to remain loyal to the brand.

At the same time, the drivers of Switching Cost and Trust are intricately linked. What this study show is that if an organisation wishes to use service innovation as a means of creating brand loyalty, the innovation has to be developed through leveraging intangible assets that accentuate what drew the customers towards the brand in the first place. As the case illustrates, continuing to innovate those things that have been successful previously will both encourage trust with the customers but also create a switching cost as the things that were deemed attractive in the first place merely becomes better, so why leave? This fact is also prevalent when looking at Corporate Image & Reputation. By staying true to the brand and its associations, an organisation can help build an even stronger corporate image in the minds of the consumer, especially if the image communicated reflect that of the customer's self-image. Once again highlighting the importance of innovating with the consumer in mind.

Overall, it becomes clear that if having a suitable organisational structure with the right combination of exploration and exploitation, and by taking into account important endogenous and exogenous factors, an organisation can push the drivers of brand loyalty with its innovations. It is also clear that having an organisational structure that allows for continuous input from those close to the customer and the market is important as the two factors of technological environment and consumer were the ones with the biggest impact on loyalty drivers in this specific case. All this could then ultimately result in the consolidation of brand loyalty amongst consumers.

7. Discussion

In this part of the thesis the implications of the study are presented in order to underline the study's contributions, both on a theoretical and managerial level. Additionally, the limitations of the research as such will be stated together with suggestions for future research areas within this topic of innovation and brand loyalty.

7.1 Theoretical Implications

The findings in this study, although subject to further development in the form of confirmation and improvement, offer several theoretical implications. First of all, the principal contribution of this study is to the field of service innovations that have, from a number of authors (e.g. Meyera & DeTore, 2001; Raja et al., 2013), been described as under-researched. Also, as previous research on service innovations and brand loyalty have been either quantitative in nature (Xu, Thong & Venkatesh, 2014) or focused on the mediating role of adoption type (Lam & Shankar, 2014) this study offers a guidance on how to manage the internal work of service innovations to facilitate the creation of brand loyalty. Thus, the presented framework as well as the identified connections between service innovation and the different drivers of brand loyalty, offer a comprehensive overview of the two constructs, something lacking in previous literature.

Secondly, as the conclusion of this study show, by continuing to innovate what made the company successful in the first place, there is a potential to create a switching cost that enhances loyalty. To innovate with previous success in mind help extend the thoughts of Eisingerich and Rubera (2010) where they claim that loyalty is dependent on the continuous development of innovations. Also, as Aaker (2007) stresses the importance of an innovation as differentiator, continuing to innovate what made the company successful, and not solely innovate on the basis of competitors offering, is sound as it facilitates further differentiation. To continue previous success also helps staying true to the brand, which is important as customers have a hard time distinguishing between services, giving the brand the role of differentiator (Krystallis & Chrysochou, 2014). As customers take a holistic approach of both the company and the innovation when assessing a new service development according to Kuntz, Schmitt and Meyer (2011), the brand is inevitably linked to the innovation. Thus, the findings in this study help provide insights to the importance of leveraging the intangible asset of the brand to facilitate the creation of loyalty. In speaking of intangible assets, they appear

to be more relevant due to the fact that service innovations, just as services in general, are intangible in nature.

Thirdly, more than merely confirming the views of Chesbrough (2011) on the importance of consumer involvement and to relinquish the idea of innovation as a linear process, this study also acknowledges the role of competitors for service innovations, extending the thoughts of Porter (2000) on competitors' role for innovation and productivity within an industry. As the market changes, and competitors innovate, they set the bar for the notion of quality that the rest have to follow. As such, this study extends the findings of Palumbo and Herbig (2000) on existing cultural conditions influencing the adaptation of innovation. By incorporating the customers' input, through the involvement of staff working in close proximity of the customer, and the surrounding technological environment, the readiness of the consumer will be higher. This may help generate increased perceived value and quality, both important drivers of brand loyalty. This also create difficulty for companies as they both need to focus on what made them successful in the first place in order to differentiate, but also keep up with the competition as customers demand a certain standard accordingly.

Lastly, the findings of this study both criticise and extend the theory on ambidextrous organisation in relation to innovation and brand loyalty, with the help of the theory on market pull and technology push. As the theory on ambidextrous organisations advocates for dual structures that solely focus on exploration or exploitation (Duncan 1976; O'Reilly & Tushman, 2013), the case presented in this study highlight the benefits of not isolating the units completely. This help extend the thoughts of Möller, Rajala and Westerlund (2008) on finding a balance between changing the market with new technology whilst still focusing on the consumers' needs and wants in the context of service innovations and brand loyalty. However, as previously discussed, this can only be achieved by the help of a tightly integrated Top Management team as suggested by O'Reilly and Tushman (2004).

7.2 Managerial Implications

The findings of this study also offer a number of managerial implications for those that aim at working with brand loyalty through service innovations. Firstly, as it is argued that exploration and exploitation should not be separated activities, it requires clear guidelines and a structured innovation process. If loyalty with the consumer is to be achieved, this study argues that it must be incorporated in the innovation process through frontline staff which may help to alleviate the issue of many innovations failing due to the lack of consumer focus

as proposed by a number of authors (e.g. Furseth & Cuthbertson, 2016; Wilke & Sorvillo, 2005). This calls for Top Management support to ensure that all input is consolidated and streamlined to fit into an existing strategy that gives the staff a sense of direction. Another important factor is to consider what Ordanini and Parasuraman (2010) stresses, that the working environment of the company must be one where input and ideas are encouraged and valued, where employees feel empowered and motivated to develop new services.

Another advantage with this way of working is that it may alleviate problems in the decision process for managers with regards to the division of resources, as proposed by Sarkees and Hulland (2009). As the innovation process in the case company illustrates, instead of launching massive undertakings on new innovations with expensive project groups, a close knit co-operation between explorative and exploitative units will facilitate continuous development and increase the chance of spending resources where there is a better chance of success.

Lastly, a final managerial implication is the importance of staying true to the brand when working with service innovation for the concept of brand loyalty. As three of five drivers of loyalty in Switching Cost, Trust and Corporate Image & Reputation are to various extents linked to this intangible asset, keeping in mind what the consumer associate with, and what made them attracted to, the brand in the first place when innovating is undoubtedly important and should therefore be on the minds of managers.

7.3 Limitations and Directions for Future Research

As with any study made in a single-case context, the findings presented here should not be carelessly generalised. Instead there is need to verify the linkages found between service innovation and brand loyalty on a larger scale, both with multiple cases and in other service contexts. This would help identify context specific traits for a more effective innovation process. As such, there were parts of the service innovation model that have not been mentioned in this study, the suppliers and the physical environment. A wider study across industries could help pinpoint their role in the work on loyalty creation through the identified drivers.

On the topic of drivers of loyalty, this study has merely taken a theoretical approach on brand loyalty, working under the assumption that the drivers used should enhance loyalty in the end. Naturally these drivers have been verified by previous studies, but without quantifiable

evidence the connection between service innovation and brand loyalty will remain just that, a theoretical link, something that requires a more empirical verification from future studies within the area. Such studies could also highlight potentially stronger connections between certain parts of the service innovation model and the different drivers.

Conclusively, as the innovations examined in this study are highly technological dependent, this has perhaps accentuated the importance of the technological environment within the service innovation model. This skewed focus could possibly be remedied by looking at other types of innovations that are not as technical in nature, which would allow for other parts of the model to become more prominent. Furthermore, in no way is the conceptual model developed for this study all comprehensive, i.e. there may very well be both contributing factors of service innovations as well as other drivers of brand loyalty of importance that have not been included when looking at the case company. Future studies could do well to consider other factors and drivers to extend the findings of this study. However, hopefully this study has contributed to a better understanding of the research area of service innovation and its relation to brand loyalty, albeit on a smaller scale. The conceptual model proposed in the thesis may serve as a starting point for future research.

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Appendix 1. List of Respondents

Name	Date	Position at Fritidsresor
Elin Sjöberg	2016-04-29	Business Owner Nordic TDA, Nordic Marketing, Responsible for the App My Holiday
Eric Selin	2016-05-02	Customer Center Manager
Ann-Louise Ehrl	2016-05-02	Business Responsible Guide Online
Magnus Westerberg	2016-05-02	Head of Creative Development
Linda Netterström	2016-05-04	Service Level Responsible, Customer Center
Mathias Bergendahl	2016-05-05	Head of Nordic Communications

Appendix 2. Interview Guide

Describe your role at the company

Fritidsresor and Innovation

- What is your view on the company's innovation process and strategy?

- What is the decision process on the development on new innovations?

- In your view, what is the idea behind or strategic goal of innovating at the company?

- Who do you think is the primary target of any new innovation?

My Holiday App and the TUI Smartband

- What is your involvement of the application?

- What is your perception of the development of the TUI Smartband?

Co-operation with other departments in regards to Innovations

- What is your view on developing innovations with regards to working together with other parts of the company?

- Which units do you most frequently co-operate with in regards to innovations?

Fritidsresor and Brand Loyalty

- What is your and your department's role in the loyalty work of Fritidsresor?

- How do you consider innovations contributing to loyalty among the consumers?